OVERSIGHT OF STUDENT LOAN MARKETING ASSOCIATION (SALLIE MAE)

HEARING

BEFORE THE

SUBCOMMITTEE ON
EDUCATION, ARTS AND HUMANITIES

OF THE

COMMITTEE ON
LABOR AND HUMAN RESOURCES
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

TO INVESTIGATE THE ACTIVITIES OF THE STUDENT LOAN MARKETING ASSOCIATION (SALLIE MAE), FOCUSING ON A REQUEST FOR AN EXEMPTION UNDER FEDERAL PRIORITY FOR RECOVERING MONEY OWED THE ASSOCIATION

AUGUST 12, 1982

Printed for the use of the Committee on Labor and Human Resources

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U.S. GOVERNMENT PRINTING OFFICE

12-675 O WASHINGTON : 1983

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OVERSIGHT OF STUDENT LOAN MARKETING ASSOCIATION (SALLIE MAE)

THURSDAY, AUGUST 12, 1982

U.S. SENATE,
SUBCOMMITTEE ON EDUCATION, ARTS AND HUMANITIES,
COMMITTEE ON LABOR AND HUMAN RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:08 a.m., in room 4232, Dirksen Senate Office Building, Senator Robert T. Stafford (chairman of the subcommittee) presiding.

Present: Senators Stafford, Randolph, and Pell.

OPENING STATEMENT OF SENATOR STAFFORD

Senator STAFFORD. The Subcommittee on Education, Arts and Humanities will please come to order.

On behalf of the subcommittee, I will extend a welcome to our guests and our witnesses this morning. The Chair had been waiting for my dear colleague, the most able Senator from West Virginia, Senator Randolph, whom I know wishes to be here, but he, like Senator Pell, has conflicting commitments this morning and the Chair is going to go ahead and begin the meeting.

The Subcommittee on Education, Arts and Humanities is meeting today to conduct oversight of the activities of the Student Loan Marketing Association, commonly known as Sallie Mae.

Sallie Mae was established by the Education Amendments of 1972 to provide additional liquidity to lenders in the guaranteed student loan program. Through its major programs of loan purchase and warehouse advance, it has provided billions of dollars in student loan capital for direct guaranteed student loan lenders and loan guarantors. As of June 30 of this year, Sallie Mae had assets of more than $6 billion.

A program of this magnitude, even though it receives no directly appropriated Federal funds, deserves the close attention of this subcommittee. The purpose of the Federal student loan programs is to provide, on the most cost-effective basis possible, adequate capital to assist low- and middle-income families who choose to pursue higher education. Sallie Mae was established to conform with this purpose, and I hope that this hearing will illuminate us as to its activities in pursuit of this critically important goal.

The Chair is going to keep the record open at this point for any additional opening statements that other members of the subcommittee might wish to make.

Before we proceed further, the Chair is delighted to see that Senator Randolph is here. Senator Randolph, I have made a very brief opening statement and this would be an appropriate time for you to do the same if you wish.

Senator RANDOLPH. Thank you very much, Mr. Chairman.

More than a year after the fact, we are holding this hearing under your able chairmanship of our Subcommittee on Education to review the Student Loan Marketing Association's new authorities granted last year in the Omnibus Budget Reconciliation Act—for the record, Public Law 97-35—and particularly its request for an exemption under Federal priority for recovering moneys owed to it in the event that Sallie Mae files for liquidation or reorganization in the future under the Bankruptcy Act.

Since its inception in 1972, there have been few efforts to conduct oversight hearings on the Student Loan Marketing Association, and that is the reason we are here this morning. We will address, Mr. Chairman, not just the new authorities that have recently been granted to the Association, but all of its authorized activities that have taken place over the past 10 years.

On July 16, 1981, I received a telegram signed by eight State guarantee or lending agency officials expressing their collective concern over the new authorities for Sallie Mae in the reconciliation bill, and requesting that those provisions be removed until such time as public hearings could be held.

Now, regrettably, July 16 was too late for me to intervene in any meaningful way, since the budget bill was, by that time, in the Senate-House conference. I was not a conferee. I was, however, able to have language inserted in the conference report to the effect that the new authorities were not intended and could not be used to undermine or unfairly compete with existing State agency activities as participants in the guaranteed student loan program.

After the reconciliation of the budget was agreed to and signed into law, I asked our able chairman—and I refer to him always as our able chairman—Senator Stafford to schedule a hearing on those new loan authorities, and he very readily agreed.

Now, we have found that it is one thing to call for a hearing on Sallie Mae, and quite another to prepare for it. I will not try to detail for you the complexities involved in understanding Sallie Mae. I think it is sufficient to say that if most Members of Congress were asked what they thought of Sallie Mae, they would respond with a question, "Who is she?" That may be overdrawing it just a little.

Our staff--Mrs. Birdie Kyle and others—have worked and studied very diligently over the past year so that they and members of the subcommittee and committee as well would have a clear grasp of the issues at hand and would be able to assure, to the extent possible, that this hearing record would be meaningful.

Their work and the subcommittee's work has prepared us for appropriate questions so as to receive, hopefully, helpful, complete answers sufficient to alleviate the concerns expressed by the various State entities in relation to the authority of Sallie Mae.

I express my genuine thanks to the staff for the work that has gone into this hearing and preparation for it, and my gratitude to the many persons and groups who have met with our staff to give

us the benefit of knowledge and expertise. And last but certainly not least, my thanks to the Congressional Research Service—we do not mention them publicly too often—and its American Law Division for providing research and analyses of the authorities in question at my request over the past year.

I know that our subcommittee has been perhaps slow in responding to the need for oversight on the Student Loan Marketing Association. There may be many who wonder why we are locking the barn door—an old expression—after the horses have been stolen. But I believe that this hearing can be productive, and will be beneficial to all who are interested and concerned.

The telegram that I received on July 16, 1981, to which I have made reference from officials from the States of Minnesota, Colorado, Massachusetts, Wisconsin, Washington, Nebraska, and West Virginia stated—and I quote the telegram:

> We share great misgivings about provisions in both bills which will greatly expand the authority and areas of activities for the Student Loan Marketing Association, and view them as an encroachment of Sallie Mae on state initiatives and responsibilities. We urge you and your colleagues to give this matter the study and hearings which it deserves.

That was an excerpt from the telegram.

State officials have indicated to the subcommittee in very certain terms that we have been rather cavalier about enacting into law amendments that benefit Sallie Mae over the past 10 years and that we have done so more and more without the benefit of public debate.

I regret that that allegation is true. However, we have probably been reluctant to hold hearings because of Sallie Mae being, in a sense, a very complex financial operation, I will pause at that point to say that sufficient time to thoroughly study this issue has always been a problem for me and for members of our staff.

We have trusted Sallie Mae to fairly represent its real needs, and have proceeded to adopt new amendments because we did not done delay action that could result in preventing students, desiring to obtain a guaranteed loan or loans for college tuition, from being able to do so.

Sallie Mae, on the other hand, probably has also reached a point where they described their rather substantive amendments as technical in nature because they were discouraged from explaining their operations and questioned whether anyone would listen if they had explained them. The blame, if any, for a lack of proper oversight rests with both sides.

Now, I wish to reiterate that despite popular belief, this hearing is not intended in any nature to be punitive. There is no doubt in our minds that Sallie Mae has provided a vital service in assuring student access to guaranteed student loans, and that has been nationwide.

However, there is no doubt in our minds, many of us, that State agencies and other lending institutions have, over a period of years, expressed a growing anxiety over the sudden appearance of new Sallie Mae authorities that have not been publicly discussed. The fact if that when State officials ask our staff for details as to the intent of the new initiative, our staff, Senator Stafford, has ad-

mittedly been unable to respond with any depth and degree of knowledge.

In other words, the concern is present and we want to have it alleviated, and I believe that this hearing can help toward that end.

The Congress created Sallie Mae in 1972, with two distinct goals: One, to provide a public service by assuring liquidity, or cash flow, to lenders willing to participate in the guaranteed student loan program; and, two, for making a profit.

For years, that organization has gone about its task; they have done the task well. As a matter of fact, they were and still are especially good at making a profit. They are very successful. Some say they are too successful. Some say that in order to assure a wide profit margin, Sallie Mae has forgotten its first goal—to provide the public service of loan liquidity for student credit demands in the States, and I have mentioned States that have directly contacted me.

Others say that Sallie Mae has suddenly become very, very conservative in agreeing to provide loan liquidity, to the detriment of State lending agencies or guarantors who require advance cash commitments to meet the credit demand of students.

I believe that members of our subcommittee, State agencies, the general public and Sallie Mae officials will hopefully, at the conclusion of this hearing or hearings, have a better communications operation established among them. We have need for more than a glimmering of understanding of Sallie Mae. We do not want the mystery to continue, and the inner workings of student loan marketing activities shall be clarified for all concerned.

Mr. Chairman, I believe it would be wise for us to ask the General Accounting Office to conduct an indepth study, audit and report for this subcommittee on Sallie Mae's activities over the past 10 years, and an evaluation, if possible, of the intended future use of recently granted new loan authorities contained in Public Law 97-35.

That GAO report, combined with the hearing record that we will compile today should serve to relieve most of the fears and anxieties that are shared by many of the participants in the student loan marketing field.

I must remind you that the States contacted us, so there must be some reason why they feel the necessity for this hearing. If this hearing does nothing else, I would hope it will answer questions about whether Sallie Mae has been doing a good job as a quasi-Government entity, and whether it has in fact had an unfair advantage in the marketplace over others that are involved in similar types of activities.

I will have questions that I will ask for the record, and other questions I request permission of our chairman to submit for written responses so that we will be able to save time.

Senator STAFFORD. Without objection, that right will be reserved to all members of the subcommittee.

Senator RANDOLPH. Thank you, Mr. Chairman. I also request permission of the chairman to include certain documents, including research papers that have been prepared by the Congressional Research Service at my request, and copies of correspondence be-

tween the president of Sallie Mae and myself, dating from August 7 through October 5, 1981, in which I asked questions related to last year's new authorities and to which Mr. Fox responded.

I thank you.

Senator STAFFORD. Without objection, those documents will be made part of the hearing record.

[The documents referred to follow:]

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02 ST. PAUL , MINNESOTA JULY 16, 1981
10114 EST

western union **Telegram**

THE HONORABLE JENNINGS RANDOLPH
U.S. SENATE
3203 DIRKSEN SENATE OFFICE BLDG.
WASHINGTON, D.C. 20510

EACH OF US HAS EXPRESSED OUR RESPECTIVE STATE POSITIONS AND CONCERNS ABOUT THE EFFECTS OF CHANGES IN FEDERAL POST-SECONDARY POLICY INCORPORATED IN THE BUDGET RECONCILIATION BILLS CURRENTLY UNDER CONFERENCE. HOWEVER, WE ALSO SHARE GREAT MISGIVINGS ABOUT PROVISIONS IN BOTH BILLS WHICH WILL GREATLY EXPAND THE AUTHORITY AND AREAS OF ACTIVITY FOR THE STUDENT LOAN MARKETING ASSOCIATION (SALLIE MAE). WHILE THESE PROVISIONS HAVE BEEN OFFERED AS TECHNICAL AMENDMENTS TO SECTION 439 OF THE HIGHER EDUCATION ACT, THEY CONSTITUTE MAJOR CHANGES IN POLICY AND SUBSTANCE WHICH HAVE NOT RECEIVED ANY HEARINGS IN EITHER HOUSE OF CONGRESS. WE OBJECT TO BOTH THE PROCEDURES AND SUBSTANCE RELATING TO THESE SECTIONS AND VIEW THEM AS AN ENCROACHMENT OF SALLIE MAE ON STATE INITIATIVE AND RESPONSIBILITIES. IN OUR JUDGMENT, THESE PROVISIONS ARE NOT GERMANE TO THE BUDGET RECONCILIATION PROCESS AND SHOULD EITHER BE REMOVED OR DELAYED FOR FURTHER STUDY. WE URGE YOU AND YOUR COLLEAGUES SERVING AS CONFEREES TO SOLICIT SUPPORT FOR FINDING A CONSTRUCTIVE WAY TO GIVE THIS MATTER THE STUDY AND HEARINGS WHICH IT DESERVES.

SIGNED:

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EXECUTIVE DIRECTOR
HIGHER EDUCATION COORDINATING BOARD
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western union **Telegram**

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western union **Telegram**

▶ SENATOR JENNINGS RANDOLPH RPT DLY MGM
ROOM 3203 DIRKSEN
CAPITOL ONE DC 20510

JUL 23 1981

SENATOR RANDOLPH,
WE BELIEVE THE PROPOSED STUDENT LOAN MARKETING ASSOCIATION MODIFICATIONS IN THE PROPOSED BUDGET RECONCILIATION LEGISLATION IS INAPPROPRIATE SINCE SUCH CONSIDERATION SHOULD COME VIA REGULAR REAUTHORIZATION AND SINCE SUCH CHANGES COULD ENDANGER THE IMPORTANT STUDENT LOAN SECONDARY MARKET MISSION. WE URGE THE MODIFICATION LANGUAGE BE DELETED
BEN MORTON
PO BOX 591
CHARLESTON WV 25322

13:02 EST

IPMPOMX WSH

JENNINGS RANDOLPH
WEST VIRGINIA

COMMITTEES
ENVIRONMENT AND PUBLIC WORKS
LABOR AND HUMAN RESOURCES
VETERANS AFFAIRS

United States Senate
WASHINGTON, D.C. 20510

August ", 1981

Mr. Edward A. Fox
President
Student Loan Marketing Association
1050 Thomas Jefferson Street, N.W.
Washington, D. C. 2000"

Dear Mr. Fox:

Recently the Association sought, and was given, Congressional authority to expand its role to include virtually all functions of the Guaranteed Student Loan Program. This new expansion authority was partially authorized in the Education Amendments of 1980, and more fully authorized in the Postsecondary Education Student Assistance Amendments of 1981, contained in the Omnibus Budget Reconciliation Act.

As originally conceived, the efforts and resources of the Association were to be dedicated exclusively to increasing liquidity of lenders originating guaranteed student loans through such activities as purchasing loans from lenders and making warehousing advances to lenders, with student loan notes of the lender as collateral. The increased authority expands the Association's role to include the functions of originating loans, insuring loans, and underwriting revenue bonds issued by States and non-profit organizations to obtain funds for student loans. In addition, the authority to undertake any activity with respect to uninsured loans as the Association may undertake with regard to insured loans gives the Association rather broad authority to establish and participate in student loan programs which, presumably are neither sponsored nor controlled in any manner by Federal statute, the Congress or any Federal agency.

This substantial expansion in the role and authority of the Association stimulates many questions in the minds of lenders, particularly State Lending or Guaranty Agencies. It will be appreciated if you will furnish me with a detailed response to the following question:

> In view of the anticipated entry of the Association into ventures which include virtually all Guaranteed Student Loan Program functions and non-Federal programs as well, how does the Association see its emerging role, and what priority will the Association establish in allocating its efforts and resources among the variety of functions for which it has sought authority?

Looking forward to a response at the earliest practicable date, I am

Truly,

COPY

Jennings Randolph

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United States Senate

COMMITTEE ON LABOR AND
HUMAN RESOURCES
WASHINGTON, D.C. 20510

August 21, 1981

Honorable Edward A. Fox
President
Student Loan Marketing Association
1050 Thomas Jefferson Street, N.W.
Washington, D.C. 20007

Dear Mr. Fox:

In view of the fact that Congressional action to expand the Association's role during the Reconciliation process was done with little or no public input or notification, questions continue to be raised by concerned organizations and individuals. It will be appreciated if you will furnish me with a detailed response to the following:

(1) Does the express desire of the Association to engage in essentially all functions related to the Guaranteed Student Loan Program and to conduct activities with respect to non-Federal programs reflect an assessment of the Association that future volume and profitability of the Association's secondary market program will not be adequate to assure success of the Association without new ventures?

(2) Is the availability of loans for purchase by the Association at a price which is profitable to the Association becoming more limited? In what way?

(3) Will the funds borrowed from the Federal Financing Bank be used by the Association for its activities with respect to loans which are not originated under any Federal program?

(4) In view of the likelihood that funds can be borrowed at a lower rate of interest for insured loans than for uninsured loans, will the Association borrow separately for uninsured loans, or will combined borrowing for both insured and uninsured loans result in a higher cost of money for the Association and a corresponding reduction in price which the Association will be willing and able to pay in purchasing guaranteed student loans?

(5) In view of the fact that the 1980 Amendments gave the Association an exclusive franchise with respect to the origination of consolidation loans, even though a number of State agencies sought but were not granted similar loan consolidation authority, what evidence from loan consolidation experience of the Association indicates that the needs of students are being met most effectively by having loan consolidation authority vested only in the Association?

(6) What volume of consolidation loans has been originated by the Association since authority for origination of these loans was granted to the Association in the Fall of 1980?

(7) How fully has the need of students for consolidation loans been met by the Association?

Looking forward to a response to these questions at the earliest practicable date, I am

Truly,

Jennings Randolph

[boilerplate committee roster]

United States Senate

COMMITTEE ON LABOR AND
HUMAN RESOURCES
WASHINGTON, D.C. 20510

August 24, 1981

Mr. Edward A. Fox
President
Student Loan Marketing Association
1050 Thomas Jefferson Street, N. W.
Washington, D. C. 20007

Dear Mr. Fox:

With reference to previous letters to you of a similar nature, additional questions have been submitted to me by concerned individuals and organizations with regard to the expanded role granted to the Association during the Reconciliation process. Again, it will be appreciated if you will furnish me with a detailed response to the following:

(1) How will the Association assure that the long-range financial viability of the organization is not impaired by holding loans which are not insured?

(2) In becoming an originator of guaranteed loans has the Association experienced any unforeseen difficulties, or has the secondary market program suffered in any way as the Association directed its attention to origination of loans?

(3) In view of the fact that the Association, which is a profit-making organization, has been granted authority to insure or guarantee loans under the Guaranteed Student Loan Program, would the Association favor an amendment which would permit other guarantors of student loans to operate as profit-making organizations?

(4) In view of the fact that the Association is being granted authority to guarantee its own loans, and because this authority eliminates some of the safeguards and checks and balances which prevail when a holder of a loan must be accountable to an independent guarantor or insurer of the loans, does the Association see the need for special monitoring by the Department of Education or other federal agency to protect against emergence of problems associated with the fact that the Association will be accountable only to itself as both the holder and insurer of some loans?

(5) How will the Association pay default claims to itself, and what is the likelihood that losses not reimbursed by the federal government will have a negative impact on the Association's financial capability to provide an effective secondary market?

Looking forward to a response at the earliest practicable date, I am

Truly,

Jennings Randolph

Jennings Randolph

SEP 17

Chartered by Act of Congress
STUDENT LOAN MARKETING ASSOCIATION
1050 Thomas Jefferson Street, N.W.
Washington, D.C. 20007
202 333-8000

EDWARD A. FOX
President

September 16, 1981

The Honorable Jennings Randolph
United States Senate
Washington, D.C. 20510

Dear Senator Randolph:

Thank you for your letters of August 7, August 21 and August 24 concerning questions raised by certain organizations and individuals relating to the new authorities granted to the Student Loan Marketing Association (Sallie Mae) under the Education Amendments of 1980 and the Postsecondary Student Assistance Amendments of 1981.

As you are aware, Sallie Mae was created by the 1972 amendments to the Higher Education Act of 1965 as a privately owned, for-profit corporation to be a secondary market for the Guaranteed Student Loan Program (GSLP). Subsequent legislation, including the two acts cited above, have broadened Sallie Mae's role to include, among other things, acting as a secondary market for Health Education Assistance Loans (HEAL), acting as a direct originator of GSLP loans under certain emergency situations, and providing loan consolidation for GSLP, HEAL, and NDSL loans for qualifying students.

Before responding to the individual questions raised in your letters, I should like to note that Sallie Mae is governed by a twenty-one member Board of Directors. Seven of these directors are elected as a class by shareholders which are educational institutions, seven are elected as a class by shareholders which are financial institutions, and seven are appointed by the President of the United States to represent the public interest. The President also chooses the Chairman of the corporation from among the twenty-one members. Sallie Mae's current Board has four members who represent states that have a student loan guarantee agency and a lending authority. The four are: E. T. Dunlap, Chancellor of the Oklahoma State Regents for Higher Education and also Chairman of Sallie Mae's Board; Teresa P. Hughes, Assemblywoman, California State Legislature; William Arceneaux, Commissioner of Higher Education for the State of Louisiana; and Ronald J. Jursa, Interim Associate, Superintendent for Postsecondary Education, Michigan Department of Education. The continuing advice and counsel furnished to the corporation by these members concerning the special

needs and interests of state lending and guarantee agencies have been extremely helpful to the corporation in planning and implementing its ongoing activities. The valuable input provided by these members, along with the recognition by the corporation that the role intended for state agencies is primary and integral to the continued success of the GSLP, have and will continue to assure that Sallie Mae's policies are designed to support and enlarge, rather than diminish, the activities of such agencies. It has been and will continue to be Sallie Mae's desire to limit its activities to a supporting and supplementary role in those areas where it shares overlapping authorities with state agencies. Accordingly, we would expect to utilize these dually shared authorities only in situations where an agency is unable to meet the needs of student borrowers.

With respect to the general question raised in your letter of August 7 concerning Sallie Mae's emerging role in the GSLP as a result of the recent legislative authorities relative to GSLP origination, guaranteeing, and insuring, I should note that in keeping with the above desire, these authorities are viewed as primarily contingent and supplementary in nature, to be implemented only as required by the changing needs of the GSLP and student borrowers. The corporation expects its primary role to continue to be that of a secondary market maker and consolidator of guaranteed student loans. One area of the recent legislation which Sallie Mae does view as vitally important is the provision clarifying Sallie Mae's ability to invest in student loan revenue bonds. Sallie Mae's ability to purchase these bonds would benefit more than twenty states who are currently dependent on this form of financing. Accordingly, the corporation expects to pursue such investments actively as soon as certain tax-related issues can be settled.

There are currently no plans to invest in non-insured student loans. It is our assumption that these loans would only be originated by financial or educational institutions at such time as there are insufficient funds or legislative authority to provide adequate credit to students under existing federal or state programs. If non-insured programs are essential to provide access to higher education to qualified students, Sallie Mae will assess the role it should play in providing a secondary market for such loans at that time.

The following questions were raised in your letter of August 21, 1981.

"(1) Does the express desire of the Association to engage in essentially all functions related to the Guaranteed Student

Loan Program and to conduct activities with respect to non-Federal programs reflect an assessment of the Association that future volume and profitability of the Association's secondary market program will not be adequate to assure success of the Association without new ventures?"

No. As noted above, Sallie Mae supported the recent expansion of its permitted activities based upon its recognition of a need to be responsive to lender and student borrower needs in a changing GSLP and financial environment. Although future amendments to the GSLP could undoubtedly reduce Sallie Mae's current levels of loan purchase, warehousing advance and commitment activity, we believe our primary role will continue to be that of a secondary market. The additional authorities granted by the recent amendments are viewed by the corporation as additional tools which will be available if necessary to fill urgent student credit needs and to provide timely support for the various delivery methods supporting student credit.

"(2) Is the availability of loans for purchase by the Association at a price which is profitable to the Association becoming more limited? In what way?"

We do not believe so. It is estimated that a total of $18 billion in GSLP loans will be outstanding at the fiscal year ending September 30, 1981. A total of $11 billion of such loans were outstanding at the end of the previous fiscal year. As a consequence of this program growth, Sallie Mae's purchases of loans during 1981 have been at record levels. Although this level of activity has at times put some strain on our resources, particularly our servicing capacity, we have been able to meet lenders' needs in a timely way and at prices we believe to be profitable to both Sallie Mae and lenders.

"(3) Will the funds borrowed from the Federal Financing Bank be used by the Association for its activities with respect to loans which are not originated under any Federal program?"

It is not our current plan to do so, with the possible exception of student loans which are guaranteed by some states and private non-profit agencies but which are not covered under the GSLP. An example of this type of loan are those guaranteed by the state of New York and made available to students who are not otherwise qualified for GSLP loans.

"(4) In view of the likelihood that funds can be borrowed at a lower rate of interest for insured loans than for uninsured loans, will the Association borrow separately for uninsured loans, or will combined borrowing for both insured and uninsured loans result in a higher cost of money for the Association and a corresponding reduction in price which the Association will be willing and able to pay in purchasing guaranteed student loans?"

As noted above, Sallie Mae has no expectation of owning uninsured loans at this time. Should Sallie Mae at some point in the future undertake such purchases, it is unclear what impact such activities will have on its financing costs since these costs are primarily a function of current market perceptions of the corporation's earning power, management and creditworthiness. With respect to the effect such purchases might have on the price paid for insured loans, we would in general expect to pay more for guaranteed student loans than for loans which are not guaranteed. As a result, we do not believe that lenders making insured loans will, in effect, be required to subsidize lenders making uninsured loans should Sallie Mae begin purchasing uninsured loans.

With respect to questions (5), (6) and (7) of your August 7 letter, a loan consolidation pilot program designed to test the delivery mechanism and controls for this activity will commence this month. Although development of this program was essentially completed earlier this year, implementation had been held up awaiting final review and approval by the Department of Education, which was received last week. Since the response by the initial test group of 5,000 borrowers has not yet been received, it is too early to comment on the effectiveness of this program.

The following questions were contained in your letter of August 24, 1981.

"(1) How will the Association assure that the long-range financial viability of the organization is not impaired by holding loans which are not insured?"

At such time as the corporation considers owning such loans, appropriate credit and pricing standards and controls will be developed to protect the corporation. While such standards and controls cannot, of course, provide the financial safety of a guarantee, we believe that their use, along with other prudent business practices which might be applied, will help to assure

Sallie Mae's continued viability. In this general regard, Sallie Mae has always strived to conduct its activities on a sound business basis. Any activity involving non-insured loans would be structured on similar principles designed to limit Sallie Mae's potential financial exposure.

"(2) In becoming an originator of guaranteed loans has the Association experienced any unforseen difficulties, or has the secondary market program suffered in any way as the Association directed its attention to origination of loans?"

The corporation has not yet been called upon by the Secretary of Education or a state agency to originate student loans under the emergency provisions of Section 439(q). As indicated above, we have just now begun the process of originating loans under the loan consolidation program. To date, this latter activity has not adversely impacted Sallie Mae's existing secondary market activities as we have been able to hire additional qualified staff needed to perform this function. It is expected that additional staff would also be available if Sallie Mae were called upon to implement an emergency loan program under Section 439(q).

"(3) In view of the fact that the Association, which is a profit-making organization, has been granted authority to insure or guarantee loans under the Guaranteed Student Loan Program, would the Association favor an amendment which would permit other guarantors of student loans to operate as profit making organizations?"

It should be noted that the authority granted to Sallie Mae is limited, except with respect to consolidation loans, to responding to a request of the Secretary of Education in situations where no other guarantor can or will provide needed insurance. To date, the Secretary has not called upon Sallie Mae to perform this function nor is there any expectation that any such request will be made in the near future. In addition, there are no current plans or intentions on the part of Sallie Mae to request authorization from the Secretary to guarantee consolidation loans. We have no view at this time as to the propriety or utility of authorizing other entities to provide guarantees under similar circumstances, whether or not the entity is a profit-making organization. However, I have no reason to believe at this time that Sallie Mae would oppose the granting of a similar authority to such organizations.

"(4) In view of the fact that the Association is being granted authority to guarantee its own loans, and because this authority eliminates some of the safeguards and checks and balances which prevail when a holder of a loan must be accountable to an independent guarantor or insurer of the loans, does the Association see the need for special monitoring by the Department of Education or other federal agency to protect against emergence of problems associated with the fact that the Association will be accountable only to itself as both the holder and insurer of some loans?"

Based upon our understanding of the recent legislation, loans which might be made by Sallie Mae under the emergency provisions of Section 439(q) would be insured either by the federal government (if the state is not served by a state agency or non-profit insurer) or by a state agency or private non-profit insurer operating in the state. Consolidation loans authorized under Section 439(o) of the Act may be insured either by the federal government, a state agency or private non-profit insurer or, as you have noted, by Sallie Mae itself under agreements with the Secretary. In this latter case, the situation would be no different than in cases where currently a state agency or private non-profit agency may provide for both a direct lender and a guarantee authority. In these cases, so far as we know, appropriate and adequate steps have been taken to assure the integrity of the separate lending and guarantee functions without the need for extraordinary monitoring by either the Department of Education or any other federal agency.

"(5) How will the Association pay default claims to itself, and what is the likelihood that losses not reimbursed by the federal government will have a negative impact on the Association's financial capability to provide an effective secondary market?"

As is suggested by the answer to the previous question, claims will be paid on the basis of an independent determination of insurance liability. While we would, of course, expect that such claims would qualify for federal reinsurance under agreements with the Secretary, our corporation would not undertake any program of loan insurance unless we were first satisfied that such a program could be structured and conducted on a sound financial basis consistent with both the promotion of the Consolidation Loan Program and our general secondary market activities.

I trust that the above information has been responsive to your inquiries. Please do not hesitate to contact me if I can be of any further assistance.

Very truly yours,

Edward A. Fox

Edward A. Fox
President

cc: Mrs. Birdie Kyle

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United States Senate
COMMITTEE ON LABOR AND
HUMAN RESOURCES
WASHINGTON, D.C. 20510

September 15, 1981

Mr. Edward A. Fox
President
Student Loan Marketing Association
1050 Thomas Jefferson Street, N. W.
Washington, D. C. 20007

Dear Mr. Fox:

This letter is in furtherance of my previous correspondence with you concerning questions that have been raised in regard to the expanded role granted to the Association during the Reconciliation process. It will be most appreciated if you will furnish me with a detailed response to the following:

(1) What volume of loans does the Association expect to originate during the next 12 months? The next 5 years?

(2) What volume of loans does the Association expect to guarantee during the next 12 months? The next 5 years?

(3) What volume of revenue bonds does the Association expect to underwrite during the next 12 months? The next five years?

(4) What are the terms, including price, according to which the Association currently is offering to purchase guaranteed student loans, and according to what terms, including price, does the Association expect to purchase non-insured loans?

(5) In what ways, if any, will lenders experience an improved secondary market as a result of any of the new authority for the Association?

(6) In view of the increasingly broad authority for the Association to engage in virtually all functions with respect to the Guaranteed Student Loan Program, to develop and participate in programs not authorized by the Congress or sponsored by the Federal government, to underwrite revenue bonds, to originate loans, and to engage in virtually any activities which the Association's Board determines to be supportive of the credit needs of students, how can the Congress be assured that activities of the Association will be consistent with sound public policies and goals acceptable to the Congress?

Looking forward to a response at the earliest practicable date, I am

Truly,

Jennings Randolph

RECD OCT 8 198

Chartered by Act of Congress
STUDENT LOAN MARKETING ASSOCIATION
1050 Thomas Jefferson Street N.W.
Washington D.C. 20007
202 333-8000

EDWARD A. FOX
President

October 5, 1981

The Honorable Jennings Randolph
United States Senate
Washington, D.C. 20510

Dear Senator Randolph:

Thank you for the opportunity to respond to the additional questions raised in your letter of September 15, 1981.

1. Our current forecast estimates that approximately $300 million in loan consolidations will be undertaken by Sallie Mae in 1982. As was stated in response to one of your earlier questions, we are currently undertaking a pilot program and our experience under this program will give us a better means of estimating future volume. The difficulty in forecasting is increased because there is no existing data base which provides us with adequate information relative to total student indebtedness. We currently do not anticipate originating loans during the next twelve months under any other program. Because of potential changes to the underlying programs and the lack of meaningful data, we are unable to make any definitive forecast beyond 1982.

2. The corporation has no expectation of guaranteeing any loans during 1982. Because of the contingent nature of this authority, which would require an emergency situation for its use, we are unable to speculate as to future plans. As mentioned in our previous response, Sallie Mae at some point may request of the Secretary the right to guarantee loans originated by Sallie Mae in a consolidation process. There is no such request pending or contemplated at this time.

3. The corporation does not have any current plan to become a revenue bond underwriter in the foreseeable future. However, if future conditions indicate that Sallie Mae could provide an attractive service to states at a competitive cost, thereby reducing states' costs of operation, then Sallie Mae will consider establishment of such an operation. Recently, the Administration indicated that it will propose legislation that could limit or cancel the authority of states to issue

revenue bonds for housing, industrial development and student loans, among other things. Such action by the Congress would render this question relative to Sallie Mae's authorities to be moot.

4. Generally speaking, a portfolio in which the average student indebtedness is approximately $4200 qualifies for a par purchase by Sallie Mae. Because of the large number of variables that are built into the pricing model, no two portfolios offered for sale will price the same. During the past few years, nearly all of our portfolio purchases have been at par as users of our programs have accumulated portfolios, primarily of graduating seniors, that meet our requirements for a par purchase. Since the corporation has never purchased non-insured loans, has no intention to do so in the near future, and has no idea of what the characteristics of such loans might be, we cannot anticipate the value of those loans to Sallie Mae, and therefore the price, at this time.

5. As stated in our previous response, the major thrust of the legislation in the Omnibus Budget Reconciliation Act of 1981 was to provide Sallie Mae with contingent and supplementary authority to be implemented only in emergency situations and as required by the changing needs of the GSLP and student credit needs. However, we do believe that the authority to purchase revenue bonds from states could have a very positive benefit on the more than twenty states that finance lender-of-last-resort and secondary market programs through the sale of revenue bonds. Currently these markets are in disarray and many states are having difficulty in raising capital to support these worthwhile programs.

6. Sallie Mae was chartered by the 1972 amendments to the Higher Education Act of 1965, is subject to oversight by the Congress and, by law, is required to file an annual report of its activities to the Congress. Sallie Mae's enabling legislation also has given specific oversight and approval authorities relative to Sallie Mae to the Secretary of the Treasury and the Secretary of Education. Also, under statute, the President of the United States appoints seven members to the Board of Directors and designates the Chairman of the Board of Directors, which group has oversight of the policy of the corporation. Specific legislation relative to Sallie Mae during the past nine years, with supportive instruction and commentary in the accompanying reports, has created a clear mandate for the corporation in support of student financial aid in general, and the GSLP in particular. The Board of Directors and the management of the corporation, mindful of the legislative and executive branch oversight, are aware that the corporation is both responsible and accountable for its actions. We believe that Congress in its wisdom has put in place a series of responsibilities

and controls which assure that Sallie Mae, as a private, for-profit entity, will function as a financially sound credit intermediary which is cognizant of the needs of the student population it serves.

Please let me know if I can be of any further assistance.

Very truly yours,

Edward A. Fox

Edward A. Fox,
President

cc: Mrs. Birdie Kyle

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

December 9, 1981

TO : Honorable Jennings Randolph
Attention: B. Kyle

FROM : David Osman
Analyst in Education
Education and Public Welfare Division

SUBJECT : Probable Consequences If the Student Loan Marketing Association (Sallie Mae) is Unable to Market its Debt Obligations in the Public Market

The Student Loan Marketing Association (Sallie Mae) is a private corporation chartered by the Congress in 1972 to provide liquidity to financial institutions participating in the Guaranteed Student Loan (GSL) program. Sallie Mae currently provides liquidity to GSL lenders in two principal ways: (1) through purchases of GSLs from lenders' portfolios, and (2) through "warehousing advances" (loans) to lenders, using lender GSLs as collateral for funds to make additional student loans. Sallie Mae's function as a secondary market for the GSL program also assists States in the marketing of State bonds for student loans by providing the guarantee of a "takeout." 1/ This takeout guarantee is necessary in some States for the bond issue to get an investor grade rating.

As of September 30, 1981, Sallie Mae reported program assets of approximately $4.3 billion: $1.8 billion in GSLs purchased and $2.5 billion in warehousing advances. Since 1974, Sallie Mae has funded its operations primarily

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1/ Essentially, a "takeout" is the sale of a bond obligation of one party to a second party who agrees to assume the obligations of the bond contract, for a fee.

from the sale of debt obligations to the Federal Financing Bank (FFB). 2/ In March 1981, Sallie Mae entered into an agreement with the FFB, the Secretary of the Treasury, and the Secretary of Education to cease using FFB funds as of September 30, 1982, or when the aggregate total of such FFB borrowing reached $5 billion, whichever occured first. At this time, Sallie Mae also agreed to begin borrowing in the public market without benefit of Federal guarantees.

As of December 9, 1981, Sallie Mae had "drawn down" approximately $4.6 billion of its $5 billion FFB credit-line, with the remaining $400 million expected to be used by early 1982. Sallie Mae has also been selling short-term discount notes as a secondary source of working capital since May 1981. Since May, the dollar amounts of such notes outstanding generally has ranged from about $100 to $450 million.

Debt Obligations Problem

To replace borrowing from the FFB as its major source of working capital, Sallie Mae planned to sell intermediate term bonds (approximately 5 to 7 years to maturity) beginning the first week in December, 1981. As final preparations were underway for the intital bond offering, a question arose concerning the priority of Federal debt over debt owed to other creditors.

According to Sallie Mae, an amendment to its authorizing legislation made by the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) waived the Federal priority if Sallie Mae were to seek a voluntary liquidation under the Federal bankruptcy statutes. However, this Reconcilation amendment failed,

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2/ Sallie Mae was initially funded in 1972 through commercial bank lines of credit, the sale of short-term debt obligations, and the proceeds from the sale of common stock to financial and educational institutions. At the present time, the majority of Sallie Mae's working capital is from its FFB borrowings, supplemented by the sale of short term (15-30 day) discount notes and the use of retained earnings.

apparently, to resolve the Federal priority problem if Sallie Mae, or its creditors, were to seek relief in case of financial distress by any other means than voluntary liquidation. Thus, if Sallie Mae ever were to be reorganized, or placed in receivership or assignment for the benefit of creditors, the United States might have an absolute priority for Sallie Mae's assets, with the claims of other creditors relegated to a secondary position.

Sallie Mae believes that its proposed intermediate bond offerings are unmarketable until this question of the priority of Federal debt is clearly resolved in a manner which places all Sallie Mae debt obligations on an equal footing under all possible bankruptcy arrangements. (In the time available for this response, we have been unable to objectively verify this claim.) In an effort to resolve this problem, an amendment was accepted on November 20, 1981 during House debate on the Older Americans Act Amendments of 1981 (H.R. 3046). A copy of this amendment and subsequent House floor debate is included as Attachment A.

Probable Consequences if Sallie Mae is Unable to Publicly Market Its Debt Obligations

The central concern of this memorandum is the question, "what would be the probable consequences if Sallie Mae were unable to market its debt obligations in the public market?" In order to address this question, the following assumptions are made:

> —Sallie Mae's presentation of the facts in this matter is essentially correct (i.e., there really is a serious problem that makes a potential bond offering impossible to sell in the public market), 3/ and

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3/ As noted earlier, we have been unable to verify the correctness of this claim. It must be emphasized that this is simply an assumption, upon which the remaining discussion depends.

—The Reagan Administration through the FFB will not rescue Sallie Mae through the extension of additional FFB credit above the $5 billion ceiling now in place.

The paragraphs which follow discuss such probable consequences for three categories of affected parties— Sallie Mae, student borrowers, lenders and State guarantors—ending with a short discussion of the overall meaning for the GSL program.

1. Probable Consequences for Sallie Mae

Sallie Mae contends that the inability to sell its intermediate bond offerings in the near term would lead to a depletion of its working capital early in calendar year 1982. Without working capital, Sallie Mae's purchasing and warehousing of GSL's would come to a halt, and it would no longer be able to provide a takeout guarantee to States for their bond issues. It is also likely that Sallie Mae would not be able to meet all takeout commitments already made if there were a heavy demand for Sallie Mae to honor these prior agreements.

The inability of Sallie Mae to raise working capital through the bond market could also have a "ripple" effect on its ability to raise extensive additional capital via discount notes. Sallie Mae would continue to receive a return on the assets it already holds, but the amount of this return would be insufficient for Sallie Mae to meet its obligations.

In short, the inability of Sallie Mae to raise working capital through the bond markets probably would result in a severe cash flow problem which would leave Sallie Mae unable to perform its function as the major secondary market for the GSL program.

2. Probable Consequences for GSL Student Borrowers

If Sallie Mae were unable to provide liquidity to GSL lenders, many students seeking to borrow GSL funds probably would find a "tightening" supply of GSL funds, possibly leading to the total unavailability of GSLs in some

States. As discussed further in the succeeding paragraphs, the inability of Sallie Mae to provide lenders a secondary market for GSLs probably would limit the supply of funds available to potential student borrowers in a number of States in at least two ways:

(1) As lenders committed that portion of their total loan portfolios allocated to GSLs, students arriving "late" could find no loan funds left for them.

(2) As lenders who use Sallie Mae to sell or warehouse student loans assess the prospect of having to hold GSL's for their entire term, some lenders seem likely to cut back on their commitment to the program while others may drop out of participation altogether.

Although students in some States would not be as severely affected as in others due to wide variations among the States in the relative use of Sallie Mae at the present time, there seems little doubt that over a longer period of time most students seeking GSL assistance could be negatively affected by a national "deterioration" in the GSL program.

3. Probable Consequences for GSL Lenders and State Guarantors

For financial insitutions who use Sallie Mae, the inability to either sell or warehouse their GSL's probably would result in a significant decrease in the volume and amounts of GSLs that such lenders would be willing or able to handle. Faced with the prospects of illiquidity in their GSL portfolios, a number of these lenders might well determine that making more long-term GSL's to hold to maturity is not profitable and, thus, cease new loan activity.

At the State level, a minority of State Guarantee Agencies which currently have relatively few dealings with Sallie Mae might not be immediately affected by Sallie Mae's inability to make or honor takeout commitments on State bond issues for student loans. In a number of States, however, such an inability to honor existing, or make new takeout commitments probably would mean that such State bond issues would lose (or not initially obtain) a bond rating high

enough to attract sufficient numbers of investors. In turn, such a failure to raise State bond revenue would impair the operations of affected State Guarantee Agencies.

4. Probable Consequences for the GSL Program

In discussing the prospect of Sallie Mae not being able to effectively function as a secondary market for the GSL program, one State head of a GSL program termed the prospect "catastrophic" while another indicated that the permanent shutdown of Sallie Mae would have "a very severe impact on the availability of GSL loans nationally."

In the short run, it seems probable that a minority of States in which Sallie Mae does not play a large role might be little affected by the absence of a functional Sallie Mae. Over the long term, however, it would appear unlikely that the GSL program could remain a major, national option for students looking for postsecondary student financial assistance if Sallie Mae did "collapse" and was not replaced by another agency to perform its functions.

ATTACHMENT A

tee staff and the staff of the man Resources Subcommittee.

Mr. Chairman, my amendment ould strengthen the Older Americans ct and the ombudsman program, and urge its adoption.

Mr. DeNARDIS. Mr. Chairman, will he gentleman yield?

Mr. RINALDO. I would be pleased o yield.

(Mr. DeNARDIS asked and was given permission to revise and extend his remarks.)

(Mr. DeNARDIS addressed the Committee. His remarks will appear hereafter in the Extensions of Remarks.)

Mr. RINALDO. Mr. Chairman, I thank the gentleman for his support and note that I very much appreciate it.

The CHAIRMAN. The question is on the amendment offered by the gentleman from New Jersey (Mr. RINALDO).

The amendment was agreed to.

AMENDMENT OFFERED BY MR. ERLENBORN

Mr. ERLENBORN. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Mr. ERLENBORN: Page 29, after line 23, insert the following new section:

ADDITIONAL TECHNICAL AMENDMENT

Sec. 31. Section 439(1) of the Higher Education Act of 1965 is amended by adding at the end thereof the following new sentence: "The priority established in favor of the United States by section 3466 of the Revised Statutes (31 U.S.C. 191) shall not apply to indebtedness of the Association.".

□ 1500

The CHAIRMAN. The gentleman from Illinois (Mr. ERLENBORN) is recognized for 5 minutes.

(Mr. ERLENBORN asked and was given permission to revise and extend his remarks.)

Mr. ERLENBORN. Mr. Chairman, this amendment is a minor technical amendment to the Higher Education Act relating to the Student Loan Market Association (Sallie Mae). This amendment clarifies the status of Sallie Mae debt in the event of liquidation or other reorganization under the Bankruptcy Code and corrects a technical error made during the Omnibus Reconciliation Act.

Sallie Mae is a federally chartered corporation in existence since 1972 charged with providing liquidity to financial institutions participating in the guaranteed student loan program.

During reconciliation, Congress sought to facilitate the transition of Sallie Mae from an entity totally financed through Federal Financing Bank (FFB) borrowing to one financed through the public market. Through September 30, 1982, Sallie Mae will borrow over $5,000,000,000 through the FFB. In March 1981, with the strong support of the administration, Sallie Mae agreed with the FFB, the Secretary of the Treasury and the Secretary of Education to begin borrowing in the public market. In May of this year, Sallie Mae began offering nonguaranteed discount notes directly through selected securities dealers.

As these notes were being introduced, Sallie Mae discovered a 1797 bankruptcy statute that gave the U.S. Government first priority for all debts owing it. The effect of this provision, found at 31 U.S.C. 191, is to subordinate all Sallie Mae's public borrowing to the debt owed the FFB. As a result of this provision, Sallie Mae feared there would be no market for their nonguaranteed notes.

To address this unfavorable situation, Congress amended the Higher Education Act during reconciliation, to provide that in the event of liquidation, Sallie Mae's property would be distributed according to the usual priorities established under the Bankruptcy Code. The amendment failed to address what priorities would be utilized in the event of a reorganization or other remedy for the benefit of creditors, whether under the Bankruptcy Code or otherwise.

My technical amendment would clarify the status of Sallie Mae debt and considerably ease its entry into the public marketplace.

Mr. FORD of Michigan. Mr. Chairman, I move to strike the requisite number of words.

(Mr. FORD of Michigan asked and was given permission to revise and extend his remarks.)

Mr. FORD of Michigan. Mr. Chairman, I rise in support of the gentleman's amendment.

I would simply like to indicate that the amendment corrects an error in something that we did virtually by unanimous consent earlier this year in the reconciliation process.

The gentleman's amendment insures that Sallie Mae may continue to function as a private sector entity and be able to finance its needs in the public markets.

The Reconciliation Act amendment, which was intended to correct the situation, failed to provide any certainty on the priorities in the case of reorganization or other such remedies for the benefit of creditors, whether under the bankruptcy code or other statutes. Because of this uncertainty, Sallie Mae effectively has been denied access to the public markets, which it was intended to use. This amendment merely clarifies the situation and the intent of the Higher Education Act.

● Mr. SIMON. Mr. Chairman, I rise in support of the amendment offered by my colleague, JOHN ERLENBORN of Illinois. The amendment is technical in nature and is designed to correct an error in the amendments affecting the Student Loan Market Association (Sallie Mae) which are included in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35). The Sallie Mae amendments, which were supported by the administration and my colleagues on both sides of the aisle, were intended to assist Sallie Mae in fulfilling its original purpose—to enter the public borrowing market and cease borrowing from the Federal Financing Bank (FFB). The amendments were defective because they failed to take into account an obscure bankruptcy statute which gives the U.S. Government first priority for debts owed to it. The practical effect is to subordinate all of Sallie Mae's public borrowing to the debts owed the FFB. Unless the amendment offered by Mr. ERLENBORN is adopted, Sallie Mae will be denied access to public debt markets and will continue to be dependent upon FFB borrowing.

Sallie Mae is an integral and essential part of the federally insured student loan system. Without Sallie Mae's secondary market and warehousing capability, many small and medium size banks would not participate in the guaranteed student loan program. In small cities and rural areas like my district in southern Illinois, no Sallie Mae means no guaranteed student loans which means no college education for many young people.

Since Congress clearly intended for Sallie Mae to function as a private corporation and to finance its needs through the public debt market, adoption of this amendment is essential. I urge my colleagues to support the Erlenborn amendment.●

The CHAIRMAN. The question is on the amendment offered by the gentleman from Illinois (Mr. ERLENBORN).

The amendment was agreed to.

AMENDMENT OFFERED BY MS. OAKAR

Ms. OAKAR. Mr. Chairman, I offer an amendment.

The Clerk read as follows:

Amendment offered by Ms. OAKAR: Page 10, line 20, strike out "(17)" and insert in lieu thereof "(16)".

Page 10, line 23, strike out "paragraph" and insert in lieu thereof "paragraphs".

Page 11, line 2, strike out "and" and all that follows through the end of such line.

Page 11, after line 3, insert the following:

"(17) provide assurances that, if a substantial number of the older individuals residing in any planning and service area in the State are of limited English-speaking ability, then the State will require the area agency on aging for each such planning and service area—

"(A) to utilize, in the delivery of outreach services under section 306(a)(2)(A), the services of workers who are fluent in the language spoken by a predominant number of such older individuals who are of limited English-speaking ability; and

"(B) to designate an individual employed by the area agency on aging, or available to such area agency on aging on a full-time basis, whose responsibilities will include—

"(i) taking such action as may be appropriate to assure that counseling assistance is made available to such older individuals who are of limited English-speaking ability in order to assist such older individuals in participating in programs and receiving assistance under this Act; and

"(ii) providing guidance to individuals engaged in the delivery of social services under the area plan involved to enable such individuals to be aware of cultural sensitivities and to effectively take into account linguistic and cultural differences; and".

SallieMae

STUDENT LOAN MARKETING ASSOCIATION

DISCOUNT NOTES

Note: This Report contains financial information with respect to Sallie Mae for the fiscal year ended December 31, 1980 which should be read in conjunction with Sallie Mae's quarterly reports for fiscal quarters subsequent to December 31, 1980. Copies of such quarterly reports can be obtained, when available, by writing to the Corporate Finance Department of Sallie Mae at 1050 Thomas Jefferson Street, N.W., Washington, D.C. 20007. The Notes referred to herein are not required to be registered under the Securities Act of 1933. Accordingly, no registration statement has been filed with respect to the Notes with the Securities and Exchange Commission. Sallie Mae is not subject to the periodic reporting requirements of the Securities Exchange Act of 1934.

May 1, 1981

SUMMARY

The Student Loan Marketing Association ("Sallie Mae") is a private corporation established in 1972 by an Act of Congress to provide liquidity for financial and educational institutions and other lenders engaged in the Federal Guaranteed Student Loan Program ("GSLP"). Sallie Mae has broad statutory authority to provide liquidity for lenders engaged in the GSLP, primarily through providing a secondary market for insured student loans and engaging in warehousing activities relating to such loans. See "Business and Operations".

Loans originated under the GSLP are either insured by the United States or made pursuant to student loan guarantee programs of states or non-profit private agencies operating under agreements with the Secretary of Education which provide for reinsurance by the United States of up to 100%. Under the GSLP the United States pays the interest on student loans (generally 9% for loans made after January 1, 1981 and 7% for loans made prior to that date) while the student is in school and during a "grace period" following the termination of studies. The United States also pays quarterly to the loan holders a "special allowance" on such loans throughout their term. The special allowance, taken together with the stated interest rate on the student loans, provides an effective interest rate approximately equal to the average coupon equivalent yield of all 13-week Treasury bills auctioned during each quarter, plus 3.5%. See "The Guaranteed Student Loan Program".

Sallie Mae obtains funds for its operations primarily from the sale of its debt obligations. In recent years, Sallie Mae has financed its activities principally through the issuance to the Federal Financing Bank ("FFB") of debt obligations guaranteed by the Secretary of Education. The FFB has agreed to lend up to a total of $5 billion to Sallie Mae prior to September 30, 1982. As of the date of this Report, $3.445 billion of this amount was outstanding. See "Business and Operations—Financing".

Description of the Notes:

The Notes described herein are offered by Sallie Mae from time to time on a discounted basis in bearer form with maturities of one year or less (generally not less than 30 days) in denominations of $100,000, $150,000, $1,000,000 and $5,000,000. *The Notes are not obligations of and are not guaranteed by the United States.* See "Discount Notes".

Eligibility for Investment:

The Notes described herein:

- are acceptable as security for the deposit of public monies subject to the control of the United States or any of its officers;
- are among those which, under Federal law, national banks may deal in, underwrite and purchase for their own accounts without limitation;
- are eligible as security for advances by Federal Reserve Banks;
- are legal investments for any portion of the assets of Federal savings and loan associations;
- are eligible to be purchased by Federal Reserve Banks under the direction of the Open Market Committee in their day-to-day implementation of monetary policy;
- are legal investments for Federal credit unions.

For further information regarding the eligibility of the Notes for investment, see "Discount Notes—Eligibility for Investment".

Offering Procedure:

The Notes are offered for sale to investors through a group of dealers selected by Sallie Mae. The Federal Reserve Bank of New York, as Clearing Agent, issues and redeems the Notes on behalf of Sallie Mae. Dealers in the Selling Group are: The First Boston Corporation; Goldman, Sachs & Co.; and Salomon Brothers.

Selected Financial Data:

	As of and for the years ended December 31,				
	(Dollars in thousands except per share amounts)				
	1980	1979	1978	1977	1976
Interest income	$ 283,295	$ 140,794	$ 64,676	$ 37,250	$ 30,035
Interest expense	256,277	123,453	49,638	26,420	23,080
Net income	9,440	8,347	5,905	4,949	2,227
Earning assets:					
Loans purchased	1,217,058	732,177	438,051	271,354	197,118
Advances	1,421,622	707,621	413,966	241,469	214,019
Notes payable	2,720,000	1,505,000	915,000	515,000	410,000
Stockholders' equity	51,196	43,092	37,745	32,465	28,367
Earnings per share	9.44	6.35	5.90	4.35	2.24

STUDENT LOAN MARKETING ASSOCIATION

The Student Loan Marketing Association ("Sallie Mae") is a private corporation established by the 1972 amendments to the Higher Education Act of 1965, as amended (the "Act"), to provide liquidity, primarily through secondary market and warehousing activities, for student loans made by eligible lenders under the Federal Guaranteed Student Loan Program ("GSLP"). The GSLP is a program provided for by the Act and related legislation pursuant to which the United States insures, and various states and a limited number of non-profit private agencies guarantee, loans made to students by eligible lenders. The United States reinsures certain loans guaranteed by states and private agencies. See "The Guaranteed Student Loan Program". Under the Act, Sallie Mae is authorized to purchase, warehouse, service, sell, offer participations or pooled interests or otherwise deal in student loans insured under the GSLP and to make commitments for any of the foregoing. See "Business and Operations" for information as to the scope of the business activities in which Sallie Mae is authorized to engage and for information as to Sallie Mae's current and proposed operations.

Sallie Mae obtains operating funds primarily from the sale of its debt obligations. Funds can also be obtained from the sale of common and preferred stock. Sallie Mae receives no direct Federal funding for its operations. See "Business and Operations—Financing".

The principal office of Sallie Mae is at 1050 Thomas Jefferson Street, N.W., Washington, D.C. 20007, and its telephone number is (202) 333-8000.

CAPITALIZATION

The following table sets forth the capitalization of Sallie Mae:

	At December 31, 1980 (Dollars in thousands)
Debt:	
Notes payable(1)	$2,720,000
Stockholders' equity:	
Common stock, par value $16.67 per share; 1,000,002 issued(2)(3)	16,670
Additional paid-in capital(2)(3)	7,195
Retained earnings	27,333
Total stockholders' equity	51,198
Total	$2,771,198

(1) Consists primarily of long-term obligations payable to the Federal Financing Bank which are guaranteed by the Secretary of Education. See Note 4 to the Financial Statements as to interest rates and maturities.

(2) Consists of voting common stock which may only be issued to certain types of holders specified in the Act. See Note 5 to the Financial Statements. Sallie Mae is also authorized to issue non-voting common and preferred stock without ownership restrictions, but none has been issued.

(3) Adjusted for six-for-one stock split effective March 31, 1981. See Note 13 to the Financial Statements.

STATEMENTS OF INCOME AND RETAINED EARNINGS

The following statements of income and retained earnings of Sallie Mae for each of the five years in the period ended December 31, 1980 are not reported on herein by independent auditors. The information includes all adjustments which Sallie Mae considers necessary for a fair presentation of the results of operations for those periods. The statements of income and retained earnings should be read in conjunction with the financial statements appearing elsewhere in this Report.

	For the years ended December 31,				
	1980	1979	1978	1977	1976
	(Dollars in thousands except per share amounts)				
Interest income on loans:					
Insured student loans purchased	$154,059	$ 76,892	$37,023	$21,193	$12,371
Less: Net deferred income	6,468	1,823	1,075	786	257
Servicing costs	10,838	5,388	3,143	1,873	1,231
Insured student loans purchased, net	136,753	69,681	32,805	18,584	10,883
Warehousing advances	137,843	63,958	27,327	17,231	17,581
Total interest income on loans, net	274,596	133,639	60,132	35,815	28,464
Income from investments, principally interest	8,699	7,155	4,544	1,435	1,571
Total interest income	283,295	140,794	64,676	37,250	30,035
Interest expense	256,277	123,453	49,638	26,420	23,060
Net interest income	27,018	17,341	15,038	10,830	6,975
Other operating income	467	222	220	689	—
General and administrative expenses:					
Salaries and employee benefits	5,905	3,459	2,496	2,006	1,748
Other	4,219	2,381	1,346	1,069	936
Total general and administrative expenses	10,124	5,840	3,842	3,075	2,684
Income before Federal income taxes	17,361	11,723	11,416	8,444	4,291
Federal income taxes:					
Current	11,054	6,272	6,016	4,781	2,068
Deferred	(3,133)	(896)	(505)	(685)	(14)
Total Federal income taxes	7,921	5,376	5,511	4,096	2,054
Net income	9,440	6,347	5,905	4,348	2,237
Retained earnings at beginning of year	19,227	13,880	8,600	4,502	2,265
Cash dividends ($1.33, $1.00, $.63 and $.25 per share respectively)	1,334	1,000	625	250	—
Retained earnings at end of year	$ 27,333	$ 19,227	$13,880	$ 8,600	$ 4,502
Earnings per share	$9.44	$6.35	$5.90	$4.35	$2.24

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Sallie Mae had increased earnings in 1980 for the seventh consecutive year since beginning operations in 1973. Net income equalled $9.4 million or $9.44 per share, a 49% increase over 1979 results. Net income of $6.3 million in 1979 represented a 7% increase over 1978. Dividends paid to stockholders during 1980 rose to $1.33 per share, a 33% increase over 1979. Dividends of $1.00 per share paid in 1979 represented a 60% increase over the $.63 per share paid to stockholders in 1978.

Net income growth during the past two years occurred as a result of extremely large increases in Sallie Mae's program assets (loans purchased and warehousing advances). During 1980 program assets increased 83% to $2.6 billion following a 69% increase in 1979. Tight money market conditions combined with the unprecedented growth in the GSLP, a result of legislative changes in recent years, to produce these increases. These factors encouraged record use of Sallie Mae's programs by lenders.

During 1980 net interest income increased 56% to $27.0 million following a 15% increase during 1979. These increases were caused entirely by the growth in earning assets mentioned above as 1980 net interest margin declined for the third year in a row. Net interest margin is the difference between interest income, net of servicing and other operating costs, and interest expense. Net interest margins for 1980, 1979 and 1978 were 1.28%, 1.46% and 2.12%, respectively.

Several factors led to this decline in net interest margin. During 1980 several third-party servicing contracts were renegotiated requiring very large increases in fees charged as a result of inflationary pressures on the cost of these servicers' operations. In addition, the continuing inflationary pressures in the economy caused management to increase the assumption regarding future rates of inflation in servicing fees used to defer income in accordance with Sallie Mae's accounting practices. Both of these items are elements of net interest income and net interest margin for Sallie Mae. The increase in the inflation assumption decreased net interest income by approximately $2.5 million in 1980.

The decline in net interest margin during 1979 was primarily the result of the ceiling in effect during the first half of 1979 on the special allowance paid by the Federal government to all holders of guaranteed student loans. This ceiling, subsequently removed by Congress effective July 1, 1979, lowered Sallie Mae's 1979 net interest income by approximately $3 million.

An additional factor reducing net interest income and margin in both years was the change to weekly financings during 1979. Prior to this change of strategy, Sallie Mae followed a policy of financing approximately one-thirteenth of its debt requirements each week with 91-day debt obligations. While this policy served Sallie Mae well and benefitted earnings in prior years, it was anticipated that future changes in interest rates would negate the effectiveness of this procedure. Therefore, in mid-1979, Sallie Mae began rolling over all maturing debt on a seven-day basis in order to produce a much closer correlation between debt cost and earning asset rates. This change was largely responsible for maintaining profitability levels during recent periods of extreme interest rate volatility. However, the change required weekly payment of interest on Sallie Mae's debt, whereas the prior practice provided Sallie Mae with approximately a 45-day accrual of interest payable. The weekly interest payments and resulting smaller accrual increased borrowing requirements. The effect of this change served to reduce net interest income by $803,000 in 1979 and $1,910,000 in 1980.

General and administrative ("G&A") expenses have increased dramatically in response to the rapid increase in Sallie Mae's asset size and a corresponding increase in the volume of new business added per period. G&A expenses of $10.1 million in 1980 were 73% higher than in 1979, when such expenses amounted to $5.8 million, a 52% increase compared with 1978. Economies of scale, however, continue to offset the absolute dollar increase in G&A expenses. In 1978, G&A expenses represented .54% of average earning assets, while in 1979 this percentage was .49% and in 1980, .48%.

Sallie Mae's tax expense consists only of Federal income taxes since the Act exempts it from state and local taxes other than real property taxes. Since all of Sallie Mae's income is taxable for Federal corporate income tax purposes, the rate of tax used to develop the tax expense shown in the income statement is almost identical to the statutory rate legislated by Congress, which was 46% in 1980 and 1979, and 48% in 1978.

BUSINESS AND OPERATIONS

Sallie Mae has broad statutory authority to provide liquidity to banks, educational institutions and other lenders engaged in the GSLP in a manner which will increase the amount of funds available for lending under the GSLP. Sallie Mae's earnings derive primarily from the difference between (1) rates at which it is able to borrow money and (2) the effective interest rates on student loans owned by Sallie Mae and assets evidencing advances (warehousing loans) made by Sallie Mae to qualified lenders, net of servicing and other operating costs. Sallie Mae also receives fees for committing to purchase loans and to extend advances for future periods. In addition, Sallie Mae derives income from the investment of funds not immediately necessary for the implementation of Sallie Mae's programs. Sallie Mae is also authorized to sell participations or pooled interests which are secured by Federally insured or reinsured student loans, but has not yet engaged in these activities.

Sallie Mae currently offers six programs designed to facilitate lender participation in the GSLP:

1. *Loan Purchase Program.* Under the loan purchase program, Sallie Mae purchases loans directly from the student loan portfolios of eligible lenders. In addition to providing a source of liquidity for student loans, the program enables lenders to increase portfolio profitability by selling loans prior to repayment, thereby avoiding the costly and time-consuming procedures of converting loans to repayment, servicing loans and collecting payments. Funds received from the sale of student loans to Sallie Mae may be used by a lender to finance new student loan originations or to invest in other assets.

Sallie Mae believes that the characteristics of a guaranteed student loan reduce the risk of loss to Sallie Mae on the student loans which it owns. There are several sources of payment for student loans held by Sallie Mae: (i) the borrowers' obligations to repay; (ii) the Federal government's or the guarantee agencies' insurance agreements which cover defaulted loans; (iii) the Federal reinsurance agreements with the guarantee agencies; and (iv) Sallie Mae's contractual recourse to the sellers or servicing agents in the event that all or any part of the insurance or guarantee proves invalid. It is the policy of Sallie Mae to purchase only those student loans which are 100% directly insured by the United States or guaranteed by states and non-profit agencies which have agreements with the Secretary of Education for reinsurance. Sallie Mae has never experienced a loss as a result of a default on a student loan which it has purchased. For a more detailed description of the GSLP and Federal reinsurance, see "The Guaranteed Student Loan Program".

2. *Warehousing Advance Program.* Under Sallie Mae's warehousing advance program, lenders pledge existing student loan portfolios or, under recent amendments to the Act, certain types of marketable obligations issued or guaranteed by the United States or by an instrumentality thereof, as collateral for warehousing advances. Advances are made for terms up to fifteen years at either variable or fixed rates. Proceeds from warehousing advances must either be invested in new student loans or the lender must maintain the size of its student loan portfolio at the time of a borrowing at the same level throughout the term of the advance.

Warehousing advances are fully collateralized. The amount of collateral required is based upon the financial condition of the borrower and the type of security for the loan, but is never less than 100% of the amount of the advance. Sallie Mae perfects its security interest in the collateral by either taking possession and/or filing financing statements, as permitted by the Act.

3. *Seller/Servicing Program.* The seller/servicing program, initiated in January 1980, permits a lender to sell its student loans to Sallie Mae, yet retain the servicing of the loans and the customer contact inherent in the servicing relationship. The program also provides Sallie Mae with an additional source for the servicing of purchased loans.

4. *Forward Purchase Commitment Program.* Under this program, lenders are granted options to sell portfolios of student loans to Sallie Mae over a specified period of time. Forward

purchase commitments are used by some state agencies issuing student loan revenue bonds, since sales under the commitment can serve as a source of funds to repay the bonds, and thus can assist the agency in its financing activities. Forward purchase commitments can also be significant factors in encouraging institutions to participate in the GSLP for the first time, as well as encouraging large financial institutions to maintain or increase their level of student loan origination activity.

5. *Forward Financing Commitment Program.* In 1980, Sallie Mae introduced a forward financing commitment program under which Sallie Mae commits to make a warehousing advance at a future date, the proceeds of which will be used to finance student loans. Since borrowers are not required to provide collateral until the funds are actually drawn down, this program is expected to be useful to institutions participating in the GSLP for the first time.

6. *Line of Credit Program.* The line of credit program provides lenders with a convenient source of borrowing at prearranged rates. Under the program, lenders, for a fee, can draw down and repay warehousing advances, without limitation, as long as the total advances outstanding at any time do not exceed the amount of the line.

In addition to the above described programs, Sallie Mae is authorized under the Act to provide for a program of loan consolidation, to purchase parental loans, and to assist in financing student loans where there is a shortage of capital, either as a direct lender or as a source of funds to eligible state guarantee agencies or direct lenders. The loan consolidation program permits Sallie Mae to make a new loan to a borrower for the purpose of retiring the borrower's outstanding loans if certain criteria are met. It is not expected that this program will be operational earlier than the third quarter of 1981. The parental loan purchase program is still under development.

Financing

Sallie Mae obtains funds for its operations primarily from the sale of its debt securities. The Act, as amended in 1980, permits the Secretary of Education to guarantee Sallie Mae's debt obligations, regardless of maturity, issued prior to September 30, 1984. This guarantee has allowed Sallie Mae to borrow from the Federal Financing Bank ("FFB") at a relatively favorable debt cost compared to public capital markets.

On March 9, 1981, the FFB agreed to lend to Sallie Mae, from time to time at Sallie Mae's request, up to $5 billion, inclusive of currently outstanding obligations, during the period ending September 30, 1982. The Secretary of Education has provided a guarantee for notes issued prior to September 30, 1982 to the FFB for up to $5 billion outstanding at any one time. Approval from the Secretary of the Treasury is obtained by Sallie Mae as each note is issued to the FFB. As of the date of this Report, Sallie Mae had $3.445 billion of this amount outstanding, principally in the form of 15-year variable rate notes. Sallie Mae expects to utilize the entire $5 billion by September 30, 1982 by issuing additional long-term variable rate notes. The variable interest rate is determined by adding .125% to the average coupon equivalent yield of all 13-week Treasury bills sold at auctions which settled during the period between interest payment dates. For long-term notes issued to the FFB on or after March 9, 1981, interest payments are made on a semi-annual basis. For long-term notes outstanding prior to that date, interest payments are made weekly. Sallie Mae has agreed with the FFB that in the event that its average program assets during any calendar quarter are less than the aggregate principal amount of advances made pursuant to the commitment and outstanding at the end of such quarter, Sallie Mae will promptly repay such part of such advances as will cause the outstanding amount thereof not to exceed such average program assets.

Under the Act, Sallie Mae is authorized to issue, and the Secretary of the Treasury is authorized to purchase, obligations of Sallie Mae. The aggregate principal amount of such obligations which may at any time be held by the Secretary of the Treasury is $1 billion. No part of this borrowing authority has ever been utilized.

Sallie Mae intends to continue to finance a portion of its operations through the sale of debt obligations to the FFB through September 1982. In anticipation of the expiration of the Secretary of Education's authorization to guarantee Sallie Mae's obligations, Sallie Mae also intends to offer the Notes and other non-guaranteed securities to the general public during this period. The kind of securities, and the provisions thereof, which Sallie Mae may determine to offer to the general public in addition to the Notes will depend, however, upon Sallie Mae's evaluation of market conditions and the requirements of its programs from time to time.

Regulation and Reporting Requirements

The Federal government has oversight responsibilities with respect to certain aspects of Sallie Mae's activities. In addition, Sallie Mae enjoys certain exemptions from Federal and state laws. With respect to such oversight and exemptions, the Act provides, among other things, for the following:

1. One-third of Sallie Mae's twenty-one member Board of Directors is appointed by the President of the United States. The other fourteen members are elected by the stockholders. The Chairman of the Board is designated by the President.

2. Sallie Mae is exempt from all taxation by any state or by any county, municipality or local taxing authority except with respect to real property taxes. Sallie Mae is not exempt from the payment of Federal corporate income taxes.

3. All stock and other securities of Sallie Mae are deemed to be exempt securities under the laws administered by the Securities and Exchange Commission to the same extent as obligations of the United States.

4. Sallie Mae may conduct its business without regard to any qualification or similar statute in any state of the United States, including the District of Columbia, the Commonwealth of Puerto Rico and the Territories and possessions of the United States.

5. The issuance of guaranteed debt obligations of Sallie Mae must be approved by the Secretaries of Education and Treasury. The issuance of non-guaranteed debt obligations must only be approved by the Secretary of the Treasury.

6. Sallie Mae is authorized to borrow from the United States Treasury, and the Secretary of the Treasury is authorized to purchase obligations of Sallie Mae, in an aggregate principal amount of $1 billion outstanding at any one time, none of which is outstanding at the date of this Report.

7. Sallie Mae is required to have its financial statements examined annually by independent certified public accountants and to submit a report of the audit to the Secretary of the Treasury. Sallie Mae is also required to submit annual reports of its operations and activities to the President of the United States and the Congress.

THE GUARANTEED STUDENT LOAN PROGRAM

Part B of Title IV of the Act provides for the program of insured student loans known as the Guaranteed Student Loan Program. Under the GSLP, loans made by eligible lenders to students meeting the requirements of the Act may be insured by the United States or guaranteed under a student loan program of a state or private non-profit agency which has an agreement with the Secretary of Education. Loans guaranteed by state or other agencies may be reinsured by the United States. Eligible lenders include banks, thrift institutions, credit unions, educational institutions, and certain other institutions such as private, non-profit or state organizations created for the purpose of making student loans.

As an incentive for the use of private capital in providing student credit, the Act provides three principal benefits to lenders making student loans: borrower interest subsidies; "special allowance"

payments to lenders; and Federal insurance or reinsurance. These benefits are available only to eligible lenders and only for loans meeting the specific criteria of the Act. These three benefits are described below. This is only a summary of certain provisions of the Act, which has been subject to frequent amendments, and reference is made to the text of the Act for a full and complete statement of the provisions.

Interest Subsidies

The Act provides for the payment of interest subsidies by the Secretary of Education to the holders of guaranteed student loans. Such subsidies are interest payments made on behalf of student borrowers with respect to student loans (1) during the time the student is enrolled in an eligible school at least on a half-time basis; (2) during a "grace period" following termination of studies; and (3) during "deferment periods". These payments assure the lender a flow of interest income during periods when principal payments are not being made.

The Act was amended in November 1978 to provide that student loans disbursed on or after November 1, 1978 qualify for interest subsidy payments regardless of the borrower's family income level. Prior to that time, borrowers qualified for interest subsidies only on the basis of either family income level or financial need analysis.

The Secretary of Education pays the interest subsidy quarterly on behalf of the student to the holder of a student loan at the rate specified by Federal law. Student loans made before January 1, 1981 generally bear interest at 7% per annum. Loans made on or after January 1, 1981 currently bear interest at 9% per annum, except for loans made to students with outstanding 7% loans, which bear interest at 7% per annum.

Special Allowance Payments

The Act provides for "special allowance" payments to be made to holders of qualifying student loans. The special allowance is paid throughout the term of the loan. These payments are designed to supplement the fixed interest payments made by the borrowers or by the Secretary of Education in order to increase the total yield to a rate competitive with other types of investments. Since January 1, 1977, the amount of the special allowance, paid on a quarterly basis, has been computed on the basis of the bond equivalent rates of all 13-week Treasury bills auctioned during the preceding quarter, less 3.5%, rounded up to the nearest .125% of 1% and divided by four. The special allowance payments had been subject to an annual ceiling of 3% (1966-1977) and 5% (1977-1979), but statutory amendments in 1979 removed all ceilings beginning with the third quarter of 1979.

The Higher Education Act Amendments of 1980 made slight modifications to the computation of the special allowance to allow for the differences in borrower interest rates discussed above. Although generally maintaining the basic computation, the 1980 amendments require that the specific per centum subtracted from the average of the bond equivalent rates of the 13-week Treasury bills auctioned the previous quarter be 3.5% for loans for which the applicable interest rate is 7%, and 5.5% when the applicable interest rate is 9%. The special allowance, taken together with the basic interest rate paid on the student loans, therefore provides an effective interest rate approximately equal to the average coupon equivalent yield of all 13-week Treasury bills auctioned during each quarter, plus 3.5%.

Federal Insurance and Reinsurance

Student loans made by eligible lenders may be insured directly by the United States or guaranteed by a state or private non-profit agency with Federal reinsurance. Loans which are insured directly by the United States are insured up to 100% as to principal and interest. In addition,

every state agency and private non-profit agency provides lenders participating under their programs with a 100% guarantee of principal and, in most cases, interest. Substantially all of these agencies have executed the necessary agreements with the Secretary of Education to qualify for up to 100% Federal reinsurance.

The Act provides that the guarantee agency will be reimbursed in an amount "equal to 100 percent of the amount expended by it in the discharge of its insurance obligations incurred under its loan insurance program" provided that certain default levels or "triggers" are not reached. The reinsurance amount falls to 90% of the amount of current fiscal year reimbursements which exceeds 5% of the amount of loans in repayment under the program at the end of the previous fiscal year. The amount is reduced to 80% of the amount of reimbursements which exceeds 9% of the loans in repayment under the program. The reinsurance rate never falls below 80% and returns to 100% at the beginning of each fiscal year. During the first five years of a guarantee agency's operations, however, the agency is fully reinsured, without regard to the above "triggers".

The Secretary of Education is also obligated to repay the total amount owed if the student borrower dies or becomes permanently and totally disabled, or, if the loan is discharged in bankruptcy, to pay the amount of the loan discharged. With regard to a guarantee agency's reinsurance contract, these loans are not considered in determining the rate of reimbursement.

Under the Act, a student loan must be delinquent for 120 days, if it is repayable in monthly installments, before a lender may seek a default insurance payment from a guarantee agency, and the agency in turn may seek reimbursement from the Secretary of Education. Deaths, disabilities and bankruptcies, however, are not subject to the 120 day waiting period. As a prerequisite to entitlement to payment of default insurance, the lender must have exercised reasonable care and diligence in making, servicing and collecting the student loan. Standards of diligence are generally outlined by the Federal government and each guarantee agency. Sallie Mae maintains a policy of requiring that the servicing and collection procedures for loans purchased be satisfactory to the guaranteeing agency prior to the purchase of any loans under that program. In addition, Sallie Mae reviews the documentation pertaining to loans prior to their purchase to ascertain whether origination practices employed by the lender are satisfactory.

Agencies' Reserves

Sallie Mae reviews the financial situation of each guarantee agency that guarantees loans in its portfolio to determine whether the loan guarantees are adequately supported by insurance reserves. Insofar as only the Federal program and those of a small number of states are supported by "full faith and credit" provisions, such reserves may be an important source of funds to offset the possible impact of receiving less than 100% reinsurance. Specific reserve ratios are normally stated in the contract executed between lender and guarantor before the lender commences its program participation. Sallie Mae ordinarily accepts such reserve ratios; however, Sallie Mae does perform reserve depletion analyses based on historical and projected default data for purposes of assessing the risk relating to purchases of loans guaranteed by an agency. Only in situations where it has offered significant forward purchase commitments in a state has Sallie Mae required a reserve ratio in excess of the 1.5-2% generally maintained by agencies.

MANAGEMENT

The Act provides that the Board of Directors of Sallie Mae shall consist of twenty-one persons and that the Board shall determine the general policies governing the operations of Sallie Mae. Under the Act, the holders of common stock which are educational institutions elect seven of the Directors, the holders of common stock which are banks or other financial institutions elect seven of

the Directors and the remaining seven Directors, which represent the general public, are appointed by the President of the United States. The President of the United States designates the Chairman of the Board.

The present Directors and their principal occupations are as follows:

Name	Principal Occupation
Representing Financial Institutions:	
Joseph W. Barr	Partner, J. & J. Co., Champaign, Illinois (real estate partnership); Chairman, Federal Home Loan Bank, Atlanta
David B. Harper	President, Gateway National Bank, St. Louis, Missouri
Kenneth V. Larkin	Executive Vice President, Bank of America, N.T. & S.A., San Francisco, California
Charles H. Miller	Chairman of the Board, The Dime Savings Bank of New York, New York, New York
John F. Ruffle	Executive Vice President, Morgan Guaranty Trust Company of New York, New York, New York
Robert G. Stevens	Financial Consultant
David J. Vitale	Vice President and Treasurer, First Chicago Corporation, Chicago, Illinois
Representing Educational Institutions:	
William Arceneaux	Commissioner of Higher Education, Louisiana Board of Regents, Baton Rouge, Louisiana
Raymond F. Bacchetti	Vice Provost for Management and Budget, Stanford University, Stanford, California
R. Jerrold Gibson	Director, Fiscal Services, Harvard University, Cambridge, Massachusetts
William I. Ihlanfeldt	Vice President for Institutional Relations, Northwestern University, Evanston, Illinois
Ronald J. Jursa	Director, Student Financial Assistance Services, Michigan Department of Education, Lansing, Michigan
Richard J. Ramsden	Senior Vice President for Administration and Finance, Brown University, Providence, Rhode Island
David B. Truman	Educational Consultant and Retired President of Mt. Holyoke College and the Russell Sage Foundation, Hillsdale, New York
Representing General Public:	
E. T. Dunlap (Chairman of the Board)	Chancellor, The Oklahoma State System of Higher Education, Oklahoma City, Oklahoma
Brenda L. Biles	Technical Assistant, Educational Issues Department, American Federation of Teachers, Washington, D.C.
Herman E. Gallegos	Chairman of the Board, U.S. Human Resources Corporation, San Francisco, California

Name	Principal Occupation
Teresa P. Hughes	Assemblywoman, California State Legislature, Sacramento, California and member, Administrative Board of Blue Shield of California
Gregory S. Nichols	Research Analyst, Iowa Senate Democratic Caucus, Des Moines, Iowa
Lois D. Rice	Senior Vice President for Government Affairs, Control Data Corporation, Washington, D.C.
Tom H. Riddell, Jr.	President, T & H Equipment Company, Inc.; partner, New Paragon Cotton Gin and Farms, Canton, Mississippi; and member of the Board of the Mississippi Bank, Jackson, Mississippi

Participants in Sallie Mae's programs are generally subject to certain requirements, including the purchase of Sallie Mae stock. Therefore, in the ordinary course of business, Sallie Mae has transactions with institutions that are stockholders and, in some cases, which have representation on Sallie Mae's Board of Directors.

At December 31, 1980, Sallie Mae had 232 employees who are engaged in various activities in connection with Sallie Mae's operations. The executive officers of Sallie Mae, the year they commenced employment with Sallie Mae and their principal occupations for the past five years are as follows:

Employee Name & Title	Year Commenced Employment	Previous Employment
Edward A. Fox President, Chief Executive Officer	1973	Mr. Fox was appointed to his current position in May 1973.
Leonard D. Schaeffer Executive Vice President, Chief Operating Officer	1980	Mr. Schaeffer was appointed to his current position in June 1980. Prior to his employment with Sallie Mae, he served in the Department of Health and Human Services as Administrator, Health Care Financing Administration (1978-1980), and as Assistant Secretary for Management and Budget (1978). Previously, he was Vice President, Citibank, N.A. (1976-1978), and Director, Illinois Bureau of the Budget, Illinois (1975-1976).
John K. Darr Senior Vice President, Chief Financial Officer	1980	Mr. Darr was appointed to his current position in May 1980. Prior to his employment with Sallie Mae, he served as Senior Vice President, Chief Financial Officer and Treasurer, Northern California Savings and Loan Association (1978-1980) and Vice President and Treasurer, Federal Home Loan Bank of San Francisco (1973-1978).
Ronald F. Hunt Vice President, General Counsel, Secretary	1973	Mr. Hunt was employed by Sallie Mae in August 1973. Prior to his current appointment in May 1979, he served as Associate General Counsel and as Secretary (1976-1979) and Assistant Secretary (1973-1976) of Sallie Mae.

DISCOUNT NOTES

Description of the Notes

The Notes are offered from time to time with maturities of one year or less (generally not less than 30 days) in denominations of $100,000, $150,000, $1,000,000 and $5,000,000. Notes are sold on a discounted basis. The discount is calculated for the actual number of days invested based on a 360-day year. Maturity dates are fixed at the time of sale, at the discretion of the buyer, subject to the general limitations prescribed by Sallie Mae. Rates are set daily by Sallie Mae. All Notes are issued in bearer-negotiable form. *The Notes are not obligations of and are not guaranteed by the United States.*

Use of Proceeds

The sale of the Notes is intended to provide an additional source of financing for Sallie Mae. The proceeds will be used for general corporate purposes.

Offering Procedure

The Notes are offered for sale to investors through a group of dealers selected by Sallie Mae. The Federal Reserve Bank of New York issues and redeems the Notes on behalf of Sallie Mae. The participating dealers have agreed to use their best efforts to maintain a secondary market for the Notes.

Tax Status

The Notes are subject to Federal estate and gift taxes and the income derived from them does not have any exemption under the Internal Revenue Code of 1954 (the "Code"). The Act does not contain any specific exemption with respect to taxes, now or hereafter imposed, on the principal of or interest on the Notes by any state, or any of the possessions of the United States, or by any local taxing authority. It is suggested that purchasers residing in states which impose intangible property or income taxes consult their tax advisers as to the status of the Notes and the interest thereon under state tax laws.

Eligibility for Investment

The Act provides that the Notes shall be lawful investments and may be accepted as security for all fiduciary, trust and public funds, the investment or deposit of which shall be under authority or control of the United States or of any officer or officers thereof. The Notes are eligible as collateral for Federal Reserve Bank "discount window" transactions. The Notes are eligible for open market purchases executed by Federal Reserve Banks.

Under Federal law, national banks and state member banks may deal in, underwrite and purchase for their own account the debt obligations of Sallie Mae. The Notes are legal investments for Federal savings and loan associations and Federal credit unions.

The Internal Revenue Service has ruled that Sallie Mae is an instrumentality of the United States for purposes of Section 7701(a)(19) of the Code. As a result, domestic building and loan associations and mutual savings banks are permitted to invest in Sallie Mae obligations to meet the percentage of total assets required to be invested in, among other things, "stock or obligations of a corporation which is an instrumentality of the United States".

Under the laws of many states, the Notes are legal for investment by savings banks, insurance companies, trustees and other fiduciaries.

CLEARING AGENT

The Clearing Agent for the Notes is the Federal Reserve Bank of New York. Denominational exchanges may be made at the Federal Reserve Bank of New York, 33 Liberty Street, New York, New York 10045.

DEALERS

The following Dealers participate in the retail sales of the Notes. These dealers have agreed to use their best efforts to maintain a secondary market for the Notes. Other dealers may also be active in the secondary market.

The First Boston Corporation
Goldman, Sachs & Co.
Salomon Brothers

LEGAL OPINIONS

Certain legal matters with respect to the issuance of the Notes have been passed upon for Sallie Mae by Ronald F. Hunt, Esq., General Counsel of Sallie Mae, and by Milbank, Tweed, Hadley and McCloy, One Chase Manhattan Plaza, New York, New York 10005, special counsel to Sallie Mae.

ACCOUNTANTS

The financial statements of Student Loan Marketing Association included herein have been examined by Arthur Young & Company, independent certified public accountants, to the extent and for the periods indicated in their report thereon. Such financial statements have been included in reliance upon the report of Arthur Young & Company and given upon the authority of that firm as experts in accounting and auditing.

12-675 O - 83 - 4

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
Student Loan Marketing Association

We have examined the accompanying balance sheets of the Student Loan Marketing Association at December 31, 1980 and 1979, and the related statements of income and retained earnings and changes in financial position for each of the three years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of Student Loan Marketing Association at December 31, 1980 and 1979, and the results of operations and changes in financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

Washington, D.C.
January 16, 1981, except as to Note 13 as to
which the date is March 20, 1981

STUDENT LOAN MARKETING ASSOCIATION

STATEMENTS OF INCOME AND RETAINED EARNINGS

Years Ended December 31, 1980, 1979 and 1978

	1980	1979	1978
	(Dollars in thousands except per share amounts)		
Interest income on loans:			
Insured student loans purchased	$154,059	$ 76,892	$37,023
Less: Net deferred income	6,468	1,823	1,075
Servicing costs	10,838	5,388	3,143
Insured student loans purchased, net	136,753	69,681	32,805
Warehousing advances	137,843	63,958	27,327
Total interest income on loans, net	274,596	133,639	60,132
Income from investments, principally interest	8,699	7,155	4,544
Total interest income	283,295	140,794	64,676
Interest expense	256,277	123,453	49,638
Net interest income	27,018	17,341	15,038
Other operating income	467	222	220
General and administrative expenses:			
Salaries and employee benefits	5,905	3,459	2,496
Other	4,219	2,381	1,346
Total general and administrative expenses	10,124	5,840	3,842
Income before federal income taxes	17,361	11,723	11,416
Federal income taxes (note 8):			
Current	11,054	6,272	6,016
Deferred	(3,133)	(896)	(505)
Total federal income taxes	7,921	5,376	5,511
Net income	9,440	6,347	5,905
Retained earnings at beginning of year	19,227	13,880	8,600
Cash dividends ($1.33, $1.00 and $.63 per share respectively)	1,334	1,000	625
Retained earnings at end of year	$ 27,333	$ 19,227	$13,880
Earnings per share	$9.44	$6.35	$5.90

See accompanying notes to financial statements.

STUDENT LOAN MARKETING ASSOCIATION

BALANCE SHEETS

December 31, 1980 and 1979

ASSETS	1980	1979
	(Dollars in thousands)	
Loans (note 2):		
Insured student loans purchased, unpaid principal (note 11)	$1,230,268	$ 738,821
Less: deferred income and unearned purchase discount	13,210	6,644
Insured student loans purchased, net	1,217,058	732,177
Warehousing advances, secured by insured student loans	1,421,622	707,621
Total loans	2,638,680	1,439,798
Cash and short-term investments (note 3)	39,951	65,043
Other assets, principally interest receivable on loans and investments	103,503	50,942
Total assets	$2,782,134	$1,555,783

LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Notes payable (note 4)	$2,720,000	$1,505,000
Interest payable	2,196	3,163
Current federal income taxes	4,801	1,854
Other liabilities	3,939	2,674
Total liabilities	2,730,936	1,512,691
Commitments (notes 6 and 7)		
Stockholders' equity:		
Common stock, par value $16.67 per share; authorized 1,000,002 shares; issued and outstanding, 1,000,002 shares (notes 5 and 13)	16,670	16,670
Additional paid-in capital	7,195	7,195
Retained earnings	27,333	19,227
Total stockholders' equity	51,198	43,092
Total liabilities and stockholders' equity	$2,782,134	$1,555,783

See accompanying notes to financial statements.

STUDENT LOAN MARKETING ASSOCIATION

Statements of Changes in Financial Position

Years Ended December 31, 1980, 1979 and 1978

	1980	1979	1978
	(Dollars in thousands)		
Sources of Funds:			
From operations:			
Net income	$ 9,440	$ 6,347	$ 5,905
Add net non-cash charges consisting principally of net deferred income and deferred taxes	3,550	1,082	595
Total funds provided from operations	12,990	7,429	6,500
Increase in notes payable	1,215,000	600,000	450,000
Matured warehousing advances and principal payments on non-matured advances	97,172	58,336	58,486
Principal reductions on insured student loans purchased:			
Installment payments	58,246	33,084	20,855
Claims and resales	45,034	19,712	21,285
Increase in interest payable	—	—	4,914
Decrease in cash and short-term investments	25,092	28,712	—
Increase in current federal income taxes payable	2,946	—	—
Other	—	—	1,834
Total sources of funds	$1,456,480	$747,273	$563,874
Uses of Funds:			
Matured long-term notes payable	$ —	$ 10,000	$ 50,000
Warehousing advances made:			
New loans	784,973	311,541	182,490
Renewed loans	26,200	40,450	48,493
Insured student loans purchased	594,535	348,760	209,919
Increase in cash and short-term investments	—	—	61,238
Increase in interest receivable	47,996	28,061	10,260
Decrease in interest payable	967	6,725	—
Decrease in current federal income taxes	—	69	849
Cash dividends paid	1,334	1,000	625
Other	475	667	—
Total uses of funds	$1,456,480	$747,273	$563,874

See accompanying notes to financial statements.

STUDENT LOAN MARKETING ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 1980

1. Significant Accounting Policies

The Student Loan Marketing Association (Sallie Mae) is a private, for-profit corporation created and authorized by Congress to serve as a national secondary market for the Guaranteed Student Loan Program (GSLP) and the Health Education Assistance Loan (HEAL) Program.

A description of Sallie Mae's significant accounting policies follows:

(a) Loans

Insured student loans purchased are stated at their unpaid principal balance net of related deferred income and unearned purchase discount. Warehousing advances are stated at their unpaid principal balance.

(b) Income Recognition on Insured Student Loans Purchased

Interest on insured student loans purchased is recognized as income in the period it accrues adjusted for accretion of purchase discounts and, as described below, for income deferred to offset future servicing costs.

Servicing costs, which are charged to expense as incurred, are generally based upon an amount per borrower or per note serviced and the status of the account. As a result, servicing costs as a percentage of principal balance increase over the terms of the loans. Under Sallie Mae's policy, current interest income is deferred or previously deferred income is recognized so as to provide a constant yield over the estimated remaining terms to maturities of the loans. Estimates of the remaining terms to maturities and other factors are used to determine adjustments to current income, and the effect of changes to such estimates are reflected prospectively in income over the remaining terms of the loans.

(c) Allowance for Possible Loan Losses

Insured student loans purchased by Sallie Mae are guaranteed by the Secretary of Education, by the Secretary of Health and Human Services or by a state or private nonprofit guarantee agency with which the Secretary of Education has an agreement under the Higher Education Act of 1965, as amended (the Act), provided applicable program requirements are met with respect to such loans. Additionally, the selling institutions warrant that the student loans are the valid obligations of student borrowers. Warehousing advances are secured by an assignment of existing insured student loans with an aggregate outstanding principal balance of at least 125% of the outstanding advance amount. Accordingly, at December 31, 1980, 1979 and 1978, no allowance for possible loan losses was deemed necessary.

(d) Short-term Investments

Investments are carried at cost which approximates market, adjusted for amortization of premiums and accretion of discounts.

(e) Federal Income Taxes

Sallie Mae recognizes certain income and expense items in different periods for financial reporting purposes than for income tax purposes. Provision for deferred income taxes is made in recognition of these timing differences. Investment tax credits which were not material in 1980, 1979 or 1978, are accounted for by the flow-through method.

STUDENT LOAN MARKETING ASSOCIATION

NOTES TO FINANCIAL STATEMENTS—(Continued)

December 31, 1980

2. Loans

(a) Insured Student Loans Purchased

Student borrowers begin repayment of loans on an installment basis after a grace period of nine to twelve months following graduation or loss of qualified student status. The repayment period, generally five to ten years, is negotiated with the borrower during the grace period. In addition to a stated interest rate of 7%, a special allowance is paid by the Secretary of Education to eligible holders of guaranteed student loans. The special allowance will be the average coupon equivalent yield of all 13-week U.S. Treasury bill auctions conducted during each quarter, less 3.5%, rounded up to the nearest one-eighth of 1%. Prior to July 1, 1979, a ceiling of 5% for any four consecutive calendar quarters existed for the payment of the special allowance.

(b) Warehousing Advances

Warehousing advances are secured loans with specified maturities and fixed or variable-rates of interest made to eligible institutions. The interest rates on variable rate advances are indexed to the 13-week U.S. Treasury bill interest rate. A summary of warehousing advance maturities follows (dollars in thousands):

Maturing in:	December 31 1980	1979
1980-1984	$ 372,712	$312,961
1985-1989	817,660	163,410
1990-1994	231,250	231,250
Total	$1,421,622	$707,621

3. Cash and Short-term Investments

Funds not currently required to finance programs were invested in money market instruments as follows (dollars in thousands):

	December 31 1980	1979
Federal funds sold	$34,300	$43,350
Securities purchased under agreements to resell	5,006	20,437
Cash	645	1,256
Total cash and short-term investments	$39,951	$65,043

4. Notes Payable

Under the Act, the issuance of debt obligations requires the approval of the Secretaries of Education and Treasury. Payment of Sallie Mae's debt obligations, regardless of maturity date, issued prior to October, 1984 may be guaranteed by the Secretary of Education, and any such guaranteed debt obligations are backed by the full faith and credit of the United States. As a matter of administrative convenience, rather than issue individual certificates for each debt obligation sold by Sallie Mae, it has been the practice of the Secretary of Education to issue a single guarantee certificate for a stated period of time covering all such debt obligations up to a specified amount at any one time outstanding. This amount is subject to change in accordance with program needs. The

STUDENT LOAN MARKETING ASSOCIATION

NOTES TO FINANCIAL STATEMENTS—(Concluded)

December 31, 1980

11. GSLP Regulations

The insured student loans Sallie Mae owns are subject to certain regulations of general applicability issued by the Department of Education (ED) with respect to the administration of the GSLP. In November, 1980, Sallie Mae received for comment a draft report based on a program review by ED which alleged certain deficiencies in Sallie Mae's compliance with GSLP regulations. A final report which will reflect comments, corrections and additional information provided by Sallie Mae is not expected to be issued until the second quarter of 1981. It is not possible to predict the outcome of the program review, but management believes that it will not have a material effect on the financial statements.

12. Quarterly Financial Information (Unaudited)

Unaudited quarterly financial information for the years ended December 31, 1980 and 1979 are summarized as follows (dollars in thousands, except per share amounts):

	1980				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Interest income	$65,080	$56,171	$63,118	$98,926	$283,295
Interest expense	58,906	51,875	55,360	90,136	256,277
Net interest income	6,174	4,296	7,758	8,790	27,018
Other operating income	91	113	133	130	467
General and administrative expenses	1,914	2,249	2,442	3,519	10,124
Federal income taxes	1,990	986	2,412	2,533	7,921
Net income	$ 2,361	$ 1,174	$ 3,037	$ 2,868	$ 9,440
Earnings per share	$2.36	$1.17	$3.04	$2.87	$9.44

	1979				
Interest income	$27,089	$28,838	$35,970	$48,897	$140,794
Interest expense	22,403	26,761	31,021	43,268	123,453
Net interest income	4,686	2,077	4,949	5,629	17,341
Other operating income	38	52	55	77	222
General and administrative expenses	1,274	1,467	1,470	1,629	5,840
Federal income taxes	1,576	303	1,614	1,883	5,376
Net income	$ 1,874	$ 359	$ 1,920	$ 2,194	$ 6,347
Earnings per share	$1.87	$.36	$1.92	$2.19	$6.35

13. Subsequent Event

On March 20, 1981 the Board of Directors of Sallie Mae approved a six-for-one split of Sallie Mae's outstanding common stock, effective March 31, 1981. As a result, the number of outstanding shares was increased from 166,667 shares (par value $100) to 1,000,002 shares (par value $16.67). The stock split resulted in a transfer of $3,333 from additional paid-in capital to common stock. All per share amounts and other share information have been restated to reflect this transaction.

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

December 9, 1981

TO : Honorable Jennings Randolph
Attention: Mrs. Kyle

FROM : American Law Division

SUBJECT: Questions Regarding Recent Amendments, Enacted and Proposed, to the Student Loan Marketing Association Provisions of the Higher Education Act of 1965, 20 U.S.C. §1087-2(1).

This memorandum is in response to various questions which you have posed to David Osman, analyst in the Education and Public Welfare Division, Congressional Research Service, regarding the legal effect of amendments to the Student Loan Marketing Association (Sallie Mae) provisions of the Higher Education Act of 1965, Pub. L. No. 89-329, §439(1), as added by Pub. L. No. 92-318, §133, as amended, 20 U.S.C. §1087-2(1). The amendments in questions are those enacted in the Omnibus Budget Reconciliation Act of 1981 (OBRA), Pub. L. No. 97-35, §538 (d) and agreed to by the House of Representatives November 20, 1981. 127 Cong. Rec. H8716 (daily ed. Nov. 20, 1981). After some preliminary discussion of the legislation at issue, we will answer the questions in the order Mr. Osman presented them to us.

It is our understanding that the Student Loan Marketing Association is a private, shareholder-owned corporation that provides liquidity to participants in the Guaranteed Student Loan Program. Created by Congress in 1972, the organization was originally characterized as a "Government-sponsored private corporation." Pub. L. No. 92-318, §133. The Association's organizing statute was amended in 1980 to deem Sallie Mae a "private corporation." Pub. L. No. 96-374, §421(a). While Congress originally intended that the corporation be financed by private capital, Pub. L. No. 92-318, §133, the organization has apparently

funded its operations since 1974 by selling guaranteed debt obligations to the Federal Financing Bank (FFB).

The planned shift by the Association from government to public financing has prompted the introduction of amendments dealing with the disposition of the Association's assets (or the repayment of its debt) in the case of insolvency. The amendment enacted in OBRA, §538(d) provides the following:

> (d) Section 439(1) of the Act is amended by adding at the end thereof the following: "The obligations of the Association shall be deemed to be obligations of the United States for purposes of section 3701 of the Revised Statutes (31 U.S.C. 742). For the purpose of the distribution of its property pursuant to section 726 of title 11, United States Code, the Association shall be deemed a person within the meaning of such title.".

Because of perceived defects in the OBRA amendment, an additional Sallie Mae amendment was proposed and agreed to by the House in November 1981. Proponents of the measure maintained that the Federal priority statute, 31 U.S.C. §191, which grants the Federal government a priority over all other creditors whenever any person indebted to the United States is insolvent (as defined by the statute), made the nonguaranteed discount notes that Sallie Mae planned to offer in the public market unattractive to potential borrowers. 127 Cong. Rec. H8716 (daily ed. Nov. 20, 1981). The November 20 amendment thus amends 20 U.S.C. §1087-2(i) to provide that "[t]he priority established in favor of the United States by section 3466 of the Revised Statutes (31 U.S.C. 191) shall not apply to indebtedness of the Association." Ibid.

You have asked whether 31 U.S.C. §191 actually operates to "subordinate all of Sallie Mae's public borrowing to the debts owed the FFB," an effect described by Mr. Simon during debate on the proposed amendment. 127 Cong. Rec. H8716. Were Sallie Mae to become insolvent in the manner required by 31 U.S.C. §191, but not proceed as a debtor under the Federal bankruptcy statute, 11 U.S.C. §101

et seq., then 31 U.S.C. §191 would appear to grant the United States an absolute priority right to the Association's assets, subject to certain conditions. Except in the case of a decedent's estate, the priority statute requires that the debtor's insolvency be evidenced by a voluntary assignment, the attachment of the estate and effects of an absconding, concealed or absent debtor, or the commission of an act of bankruptcy, even though a bankruptcy proceeding does not follow. United States v. Oklahoma, 261 U.S. 253, 262 (1923); Plumb, "The Federal Priority in Insolvency: Proposals for Reform," 70 Mich L. Rev. 3, 12-14 (1971) [hereinafter cited as Plumb]. In such case, certain judicial limitations placed on the operation of the priority statute might also apply. E.g., Epstein & Landers, Debtors and Creditors 324-326 (1978). We note, however, that the Bankruptcy Reform Act of 1978, Pub. L. No. 95-598, §322, made the Federal priority statute inapplicable in cases under 11 U.S.C. §§101 et seq. Thus, if Sallie Mae were to proceed as a Title 11 debtor, its Federal unsecured debt would no longer be subject to the §191 priority. As stated in the legislative history of the 1978 Act, "the government's non-tax claims [would be] on a par with other unsecured claims, unless ... the government's claim is secured." H.R. Rep. No. 595, 95th Cong., 1st Sess. 194 (1977).

You have also asked whether the OBRA amendment affects the application of the priority statute, and, in particular, what effect results from designating Sallie Mae as a "person" under Title 11 for purposes of 11 U.S.C. §726, and whether such designation has the same effect as that intended by the November 20 amendment. We find that the OBRA amendment appears to be unclear in its intended effect. It would seem that the drafters may have desired that Sallie Mae be considered a person for purposes of Chapter 7 of the Bankruptcy Act, that is,

that it be enabled to file for a liquidation. In such case, one might question why the provision limits the application of chapter 7 to the provision dealing with distribution of the estate, that is, §726.

An amendment to the definition of "person", 11 U.S.C. §101(30), or "governmental unit," 11 U.S.C. §101(21), might have been clearer, this bringing into play 11 U.S.C. §109, dealing with who may be a debtor under the various chapters of the bankruptcy code. Only "persons" may qualify as debtors under chapter 7 (liquidation) and chapter 11 (reorganization), provided they fulfill the other requirements of the bankruptcy code. 11 U.S.C. §109(a), (b), (d). The code definition of person" includes individuals, partnerships, and corporations, but excludes governmental units. 11 U.S.C. §101(30). As "governmental unit" is defined to include a "department, agency, or instrumentality of the United States," 11 U.S.C. §101 (21), it could be argued that Sallie Mae, as a government-created corporation, would not be deemed a person for purposes of the bankruptcy code. In such case, an amendment to the code would be needed in order to enable Sallie Mae to proceed as a Title 11 debtor. However, it could also be argued that, because Sallie Mae is now apparently a private corporation, 20 U.S.C. §1087-2(a), it would seem to fall within the definition of "person" under 11 U.S.C. §101(30). In addition the definition of "governmental unit" is intended not to include "entities that owe their existence to State action such as the granting of a charter or a license but that have no other connection with a State or local government or the Federal government. The relationship must be an active one in which the department, agency, or instrumentality is actually carrying out some governmental function." H.R. Rep. No. 598, 95th Cong., 1st Sess. 311 (1977). Were Sallie Mae to be considered in this light, the Association would appear to be subject to Title 11 whether or not another statute provided the same.

We note again that it appears that the drafters of the OBRA amendment intended that Sallie Mae be authorized to file for liquidation under the bankruptcy code.* The effect of the November 20 amendment appears to broaden the existing Title 11 exemption from 31 U.S.C. §191, by making the Federal priority statute inapplicable in any case of Sallie Mae insolvency, not only where proceedings under Title 11 were involved.

You have also asked what effect the November 20 amendment has on the Federal priority in the event of bankruptcy. Were Sallie Mae to become a Title 11 debtor, the amendment would have no effect, as the Federal priority for unsecured non-tax claims has already been eliminated in the Bankruptcy Reform Act of 1978.

Finally, you have asked if the Federal government would be giving up any other legal "rights" besides the priority right in bankruptcy if the November 1981 amendment were to become law and, in particular, if there are any other hidden legal "pitfalls" in treating public debt on a par with private debt in the event of bankruptcy. The November 1981 amendment, as noted above, would remove the Federal priority set forth in 31 U.S.C. §191 from all insolvency proceedings contemplated by §191 and not merely from title 11 proceedings. The amendment concerns only the Federal priority right, but increases the number of situations in which Sallie Mae's indebtness will be exempt from the right.

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* The legislative history of the amendment is unclear as it merely states that the legislation intends that "Sallie Mae obligations ... [be] considered as governmental obligations for the purposes of bankruptcy proceedings." H.R. Rep. No. 208, 97th Cong., 1st Sess. 742-43 (1981). The amendment contains two provisions: one, making Sallie Mae obligations exempt from state and local taxation under 31 U.S.C. §742; two, deeming Sallie Mae a person within the meaning of Title 11 for the purpose of distribution of its property pursuant to 11 U.S.C. §726. OBRA, §539(d). The Statement in the House Report appears to combine both provisions of the amendment, instead of dealing separately with what would seem to be the different effects of each.

Eliminating the exemption does not appear to have any other legal implications in terms of bankruptcy law. We note that in deciding to treat Federal unsecured non-tax claims on a par with private unsecured claims, Congress appeared to be responding to a growing body of thought that the Federal government, as a knowing lender, should be subject to the same risks undertaken by private lenders. See, e.g., Plumb 10-12; H.R. Rep. No. 595, 95th Cong., 1st Sess. 193-94 (1977).

We hope that this information will be helpful to you, and that you will call on us if you have any additional questions.

Jeanne Jagelski
Legislative Atttorney

Congressional Research Service
The Library of Congress

Washington, D.C. 20540

LEGISLATIVE HISTORY OF THE STUDENT LOAN MARKETING ASSOCIATION

Mark Wolfe
Analyst in Education
Education and Public Welfare Division
May 17, 1982

PROVIDED AT THE REQUEST OF
SENATOR JENNINGS RANDOLPH

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BACKGROUND AND SUMMARY

Section 439 of the Higher Education Act of 1965, as amended, authorizes the Student Loan Marketing Association (Sallie Mae) to provide secondary market and related activities for qualified lenders participating in the Guaranteed Student Loan (GSL) program and in the Health Education Assistance Loan (HEAL) program. Sallie Mae is also authorized by section 439 to purchase and underwrite student loan revenue bonds, provide GSLs in States where they are not available from other sources, and offer extended repayment terms to GSL and HEAL borrowers.

The purpose of Sallie Mae, as originally enacted by the Education Amendments of 1972 (P.L.92-318), was to provide liquidity to GSL lenders through two secondary market activities: (1) through purchases of GSLs from lenders' portfolios, and (2) through "warehousing advances" (loans) to lenders, with lenders using GSLs as collateral to obtain funds from Sallie Mae to make additional student loans.

Prior to the enactment of the 1972 Amendments, the volume of GSL lending had increased rapidly from $77 million in 1966 (when the first loans were issued) to nearly $1.1 billion in 1971. As the volume of program lending increased, GSL lenders, many of whom had accumulated relatively large portfolios of student loans, became increasingly reluctant to commit additional funds for GSLs because of their relative lack of liquidity, long repayment schedules and relatively high servicing costs. By comparison, home mortgages at the time were viewed by the lenders as more favorable investments because they could be sold

to investors or to the Federal National Mortgage Association (Fannie Mae), thus providing liquidity.

While both the final House and Senate versions of the 1972 amendments supported the establishment of the Student Loan Marketing Association, the initial Senate version, S.659, as introduced by Senator Pell and as reported by the Subcommittee on Education, Arts, and the Humanities, would have only authorized secondary market activities for GSLs in the Department of Treasury rather than via a separate agency. Senator Pell reportedly was concerned that the establishment of a new agency would commit the Federal Government to financing higher education primarily through loans.

Significant changes were made to section 439 by the Health Professions Educational Assistance Act of 1976 (P.L. 94-484), Education Amendments of 1980 (P.L. 96-374), and the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35). Minor technical changes were provided by the Education Amendments of 1976 (P.L. 94-482) clarifying Sallie Mae's authority to take possession of student loans pledged as collateral for warehouse advances. The Health Professions Act of 1976 authorized Sallie Mae to provide warehouse and purchasing services for HEAL borrowers. The 1980 amendments provided that Federal securities, in addition to GSLs, could be used as collateral for warehouse advances; authorized Sallie Mae to consolidate and extend repayment terms for GSL borrowers; and provided that Sallie Mae could insure loans to borrowers in certain circumstances where substantial numbers of students were unable to obtain loans from program lender.

The Omnibus Budget Reconciliation Act of 1981 authorized the Association to provide secondary market services for non-insured student loans, consolidate loans for HEAL borrowers, purchase and underwrite student loan bond issues

and carry out any other activities determined by the Board of Directors to support the credit needs of students.

Lastly, the Older Americans Act of 1981 (P.L. 97-115) amended section 439 by providing (through September 30, 1982), that all creditors, including the Federal Government, would have equal priority to Sallie Mae's assets, if Sallie Mae were to seek relief in case of financial distress by any means other than voluntary liquidation. The intent of this amendment was to improve the acceptance by investors of Sallie Mae's non-guaranteed obligations by placing all of Sallie Mae's debt obligations on an equal footing under all possible bankruptcy arrangements.

This paper describes the initial amendments to the Higher Education Act in 1972 that established Sallie Mae, and the subsequent amendments to the original legislation enacted in 1976, 1980, and 1981. Copies of the amendments to the Higher Education Act relating to Sallie Mae and the relevant House and Senate Committee report sections concerning the amendments, are included as an appendix at the end of this paper.

GLOSSARY OF SELECTED TECHNICAL TERMS

Guarantee Agency--A State agency or private non-profit agency that administers the Guaranteed Student Loan program in the State.

Guaranteed Student Loan Program--A Federal program providing financial assistance in the form of interest subsidized loans to undergraduate, graduate, and professional students who are enrolled, on at least a a part-time basis, at participating colleges, universities, or vocational/technical schools. As of October 1, 1981, GSLs are based on financial need for families whose adjusted family income exceeds $30,000.

Health Education Assistance Loan Program--A Federal program providing financial assistance in the form of loans to full time students attending schools of medicine, osteopathy, veterinary medicine, podiatry, public health, and pharmacy. Students receiving a HEAL award may not receive any other federally insured loan for the year covered by the HEAL award. HEAL awards do not carry a Federal interest subsidy.

Secondary Market--A means by which loan notes can be sold or pledged as collateral for additional funds from one party to another. Sallie Mae provides two secondary market functions: (1) through purchases of GSLs from lenders portfolios; and (2) through "warehousing advances" (loans) to lenders using GSLs as collateral to obtain funds from Sallie Mae to make additional student loans.

Student Loan Revenue Bonds--Tax exempt obligations issued by guarantee agencies to raise funds to provide GSLs for students who are unable to receive student loans for commercial borrowers and in some cases to also purchase GSLs made by program lenders . In 1981, $1.4 billion in student loan bonds were issued by 20 guarantee agencies.

LEGISLATIVE HISTORY

Education Amendments of 1972 (P.L. 92-318)

P.L. 92-318 authorized the establishment of Sallie Mae as an amendment to the Higher Education Act of 1965, Title IV, part B, section 439; described as follows:

Purpose

The purpose of Sallie Mae is to serve as a secondary market and warehousing facility for insured (GSL) student loans and to provide liquidity for student loan investments.

Warehousing and Purchasing Authority

Sallie Mae is authorized to purchase, service, sell, and make warehouse advances on insured loans. Warehouse advances can be made to qualified lenders for 80 percent of the face value of their insured loans which must be invested by the lender in additional insured loans. The Association is authorized only to purchase from, or make warehouse advances to, qualified lenders that provide assurances that they will not require that students or their families maintain a business relationship with them as a prerequisite for receiving a GSL. (This provision does not apply, however, to lenders with less than $50 million in deposits.) In addition, lenders cannot discriminate against GSL applicants on the basis of race, sex, color, creed or national origin.

Capital Structure and Financing Authorities

Sallie Mae is authorized to issue common stock with a par value of $100 per share to qualified lenders and institutions. Each share of common stock will have one vote with rights of cumulative voting (one vote per share) for Board elections. The Secretary of HEW is authorized to prepare regulations concerning the transfer and number of shares issued of common stock. 1/ Sallie Mae is also authorized, with the approval of the Secretary, to issue preferred non-voting stock, with a par value of $100.

Sallie Mae is authorized. with the approval of the Secretary of the Treasury and the Secretary of HEW, to issue and have outstanding, through July 1, 1982, obligations guaranteed by the Secretary of HEW. The aggregate amount of such obligations is to be determined by the Secretary of HEW in consultation with the Secretary of Treasury.

Board of Directors

The Board is responsible for making overall policy for Sallie Mae including the criteria for providing advances on securities and purchasing of student loans. It is comprised of 21 members of which: 7 are elected by eligible lenders; 7 are elected by eligible educational institutions; and 7 are appointed by the President. The Chariman of the Board is appointed by the President from among the 21 board members.

1/ P.L. 96-88, which established the U.S. Department of Education, changed all references to the Secretary of HEW, which applied to programs administered by the newly enacted Department of Education, to the Secretary of Education.

The duties of the Chairman include calling, at least semi-annually, the meetings of the Board, and selecting, with the approval of the Board, the executive officers for Sallie Mae. 2/

Reports

Sallie Mae is required to prepare and submit annually to the President and the Congress, a report describing its operations and activities. The Secretary of the Treasury is required to prepare and submit annually to the President, the Congress, and the Secretary of HEW a report describing the annual audit of Sallie Mae.

Other Provisions

The amendments provided for the general corporate powers, audit requirements, and procedures for ending program operations. The amendments also provided that Sallie Mae would maintain its primary offices in the District of Columbia, and that its assets, except for its real estate assets, would be exempt from State and local taxation.

2/ P.L. 92-318 authorized the President to appoint an interim Board of Directors for Sallie Mae to arrange for an initial offering of common and preferred stock and take whatever other actions would be necessary to proceed with the operations of Sallie Mae. The amendments also authorized the Secretary of HEW to loan $5 million, at an interest rate determined by the Secretary of the Treasury, to assist in the establishment of the Association.

Summary of Congressional Action

House Reports: No. 92-554 accompanying H.R. 7248 (Committee on Education and Labor) and No. 92-1085 (Committee of Conference)

Senate Reports: Nos. 92-346 and 92-604 (Committee on Labor and Public Welfare) and No. 92-798 (Committee of Conference)

Congressional Record:

Vol. 117 (1971): Aug. 4-6, considered and passed Senate
Nov. 3, 4, considered and passed House, amended, in lieu of H.R. 7248

Vol. 118 (1972): Feb. 22-25, 28, 29, Mar. 1, Senate agreed to House amendment with amendments
Mar. 8, House disagreed to Senate amendment; requested a conference
May 23, 24, Senate agreed to conference report
June 8, House agreed to conference report
June 23, signed into law by the President

Education Amendments of 1976 (P.L. 94-482)

The 1976 amendments authorized Sallie Mae to take possession of student loans pledged as collateral for warehouse advances.

--Previous law did not contain a similar provision.

Summary of Congressional Action

House Reports: No. 94-1085 accompanying H.R. 12835, No. 94-1086 accompanying H.R. 12851 and No. 94-1232 accompanying H.R. 14070 (all from Committee on Education and Labor) and No. 94-1701 Labor) and No. 94-1701 (Committee of Conference)

Senate Report No. 94-882 (Committee on Labor and Public Welfare)
Congressional Record, Vol. 122 (1976):
Aug. 26, 27, considered and passed Senate
Aug. 31, considered and passed House, amended, in lieu of H.R. 12835, H.R. 12851, and H.R. 14070
Sept. 28, Senate agreed to conference report
Sept. 29, House agreed to conference report
Oct. 12, signed into law by the President

Health Professions Educational Assistance Act of 1976 (P.L. 94-484)

New Authorities

Sallie Mae is authorized to purchase, service, sell and make warehouse advances on loans insured through the Health Education Assistance Loan (HEAL) program.

Summary of Congressional Action

House Reports: No. 94-266 (Committee on Interstate and Foreign Commerce) and No. 94-1612 (Committee of Conference)

Senate Reports: No. 94-886 (Committee on Labor and Public Welfare) and No. 94-887 accompanying S. 3239 (Committee on Labor and Public Welfare)

Congressional Record:

Vol. 121 (1975):	July 11, considered and passed House
Vol. 122 (1976):	July 1, considered and passed Senate, amended
	Sept. 20, Senate agreed to conference report
	Sept. 27, House receded and concurred in Senate amendment with amendment
	Sept. 30, Senate agreed to House amendment
	Oct. 12, signed into law by the President

Education Amendments of 1980 (P.L. 96-374)

Warehousing and Purchasing Authority

Those amendments authorized Sallie Mae to provide warehouse advances to qualified lenders for up to 100 percent of the face value of: GSLs; securities or marketable obligations issued, guaranteed, or insured by the Federal Government; and marketable obligations issued, guaranteed, or insured by any agency, instrumentality or corporation of the Federal Government. The amendments required that lenders receiving a warehouse advance must either reinvest an amount equal to the advance in additional insured loans or maintain a level of insured loans equal to the amount of the advance.

Previous law required that GSLs could only be used for warehouse advances for 80 percent of their face value. Other U.S. securities or guaranteed securities could not be used as collateral for such advances. In addition, previous law required that all such advances must be reinvested in additional insured loans.

These amendments authorized Sallie Mae to purchase from, or make warehouse advances to, qualified lenders with assets of less than $75 million in deposits who require that students or their families maintain a business relationship with the lender as a prerequisite for receiving a GSL.

Previous law provided that Sallie Mae could purchase from or make warehouse advances to, lenders with less than $50 million deposits who required students or their families to maintain a business relationship with them as a prerequisite for receiving a student loan.

These amendments also clarified the authority of the Association to resell, offer participations or pooled interests secured by insured loans.

Capital Structure and Financing Authority

The Board of Directors is authorized to issue common and non-voting common and preferred stock. The amendments provided that the Board would determine the volume and par value of any such stock issued.

Previous law required the Secretary of Education to prescribe regulations concerning the amount of common and preferred stock issued, approve any proposal to issue preferred stock, and set the par value of any stock issued at $100 per share. In addition, previous law did not authorize the issue of non-voting common stock.

The amendments extended Sallie Mae's authority to issue obligations guaranteed by the Secretary of Education through October 1, 1984. 3/

The Secretary of the Treasury is authorized to purchase up to $1 billion in any non-guaranteed securities offered by Sallie Mae.

The Secretary of Education can only disapprove obligations issued by Sallie Mae which are guaranteed by the Secretary.

Previous law provided that the Secretary could disapprove the issue of both guaranteed and non-guaranteed obligations issued by the Sallie Mae.

New Authorities

The amendments authorized Sallie Mae, or its agent, to act as a direct lender to make consolidated or extended repayment insured loans to borrowers who have insured loans from more than one lender in excess of $7,500 or from one lender in excess of $5,000. The amendments provided that Sallie Mae may designate a State student loan guarantee agency as its agent under this part.

Sallie Mae is authorized, upon approval by the Secretary, and in consultation with and the agreement of a representative of the State agency, to make direct loans to borrowers in States where there are substantial numbers of students who are unable to obtain insured loans from commercial lenders.

Sallie Mae is authorized, with the approval of the Secretary, in States that have not established a guarantee agency or an agency to act as a direct lender to students unable to obtain insured loans from commericial lenders, to act as a direct lender to those students.

3/ Sallie Mae which has funded its operations primarily through obligations guaranteed by the Secretary of Education through the Federal Financing Bank (FFB) entered into an agreement on March 1, 1981, with the Secretary of Education and the Secretary of the Treasury to cease using FFB funds on September 30, 1982, or when the total FFB borrowing reaches $5.0 billion.

Sallie Mae is authorized to provide advances and to set the repayment terms, to any agency or eligible lender that would be unable to make GSLs without such assistance.

Summary of Congressional Action

House Report: No. 96-520 (Committee on Education and Labor) and No. 96-1337 (Committee of Conference)

Senate Report No. 96-733 accompanying S. 1839 (Committee on Labor and Human Resources)

Congressional Record:
Vol. 125 (1979): Oct. 29, Nov. 2, 7, considered and passed House
Vol. 126 (1980): June 23, S. 1839 considered in Senate
June 24, H.R. 5192 considered and passed in lieu of S. 1839
Aug. 28, House agreed to conference report
Sept. 4, Senate rejected conference report
Sept. 18, House agreed to second conference report
Sept. 25, Senate agreed to second conference
Oct. 3, signed into law by the President

Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35)

Purpose

The Reconciliation Act authorizes Sallie Mae to serve as a secondary market and warehouse facility for non-insured (non-Federal) student loans and to assure nationwide coverage of loan insurance.

Previous law only authorized Sallie Mae to serve as a secondary market and purchasing authority for insured student loans.

Warehousing and Purchasing Authority

Sallie Mae is authorized to deal in obligations issued by State agencies or eligible lenders.

Previous law did not authorize the Association to deal in obligations issued by State agencies or eligible lenders.

Capital Structure and Financing Authority

Sallie Mae is authorized to insure GSLs in States where the Department of Education determines that loan demand is not being met by the established State agency, or where there is no State agency willing or able to provide GSLs.

Previous law only authorized Sallie Mae to make direct loans in areas where the Department of Education in consulation with and agreement of the State agency that loan demand is not being met by commerical lenders.

The Board of Directors is authorized to undertake any other activity which it determines to be in furtherance of programs of either insured or uninsured student loans, or that otherwise support the credit needs of students.

Previous law did not contain a similar provision.

Sallie Mae's obligations are to be considered as Government obligations for the purposes of bankruptcy proceedings.

Previous law did not contain a similar provision.

Sallie Mae is authorized to consolidate loans for HEAL borrowers.

Previous law only authorized Sallie Mae to purchase, service, sell and make warehouse advances on loans made by program lenders.

Summary of Congressional Action

House Reports: No. 97-158, vols. I-III (Committee on the Budget) and No. 97-208 bks. 1, 2 (Committee of Conference)

Senate Report: No. 97-139 accompanying S. 1377 (Committee on the Budget)

Congressional Record, Vol. 127 (1981):
June 22-25, S. 1377 considered and passed Senate
June 25, 26, considered and passed House
July 13, considered and passed Senate, amended in lieu of S. 1377
July 31, House and Senate agreed to conference report
Aug. 13, signed into law by the President

Older Americans Act Amendments of 1981 (P.L. 97-115)

Capital Structure and Financing Authority

These amendments provided that all creditors (through September 30, 1982) would have equal priority to Sallie Mae's assets if Sallie Mae were to seek relief in case of financial distress, by any areas other than voluntary liquidation. The apparent intent of this amendment was to improve the acceptance by investors of Sallie Mae's non-guaranteed obligations by placing all of Sallie Mae's debt obligations on an equal footing under all possible bankrupt arrangements.

Previous law provided that the Federal Government would have first priority access to any of Sallie Mae's assets unless Sallie Mae were to seek a voluntary liquidation under the Federal bankrupt statutes.

Summary of Congressional Action

House Reports: No. 97-70 accompanying H.R. 3046 (Committee on Education and Labor) and No. 97-386 (Committee of Conference)

Senate Report: No. 97-159 (Committee on Labor and Human Resources)

Congressional Record, Vol. 127 (1981):
Nov. 2, considered and passed Senate
Nov. 20, H.R. 3046 considered and passed House; proceedings vacated and S. 1086, amended, passed in lieu
Dec. 11, Senate agreed to conference report.
Dec. 16, House agreed to conference report

Description of Sallie Mae Services

Major

1. Loan Sale Program --- Sallie Mae purchases loans from a lender's GSL portfolio.
   Benefits to lenders:
   1) Source of liquidity
   2) Increase portfolio profitability

2. Warehousing Advance Program--- Lenders borrow from Sallie Mae against the security of their outstanding GSL portfolio (during 1981, Sallie Mae accepted obligations issued by U.S. as collateral for a warehousing advance)
   Benefits to lenders:
   1) Convenient source of loan funds to meet increasing student loan demand

Other

3. Forward Purchase Commitment Program --- Lenders have the option to sell portfolios of student loans to Sallie Mae, and Sallie Mae is obligated to purchase a specified amount of student loans over a specified period of time. Attractive to State agencies issuing student loan revenue bonds as a source of funding for guaranteed student loans. The commitment can assist the agency in obtaining a more favorable bond rating by assuring bondholders that funds will be available for meeting future principal and interest payments.

4. Forward Financing Commitment Program --- Sallie Mae makes a commitment to lend funds to lenders at a future date for financing student loans. Lenders are not required to provide collateral until funds are drawn down.

5. Line of Credit Program --- Lenders, for a fee, can draw down and repay funds without limitation, as long as the total outstanding at any one time does not exceed the amount of the line.

6. Seller/Servicing Program --- Permits lenders to sell student loans to Sallie Mae while retaining the responsibility for servicing the loans under a fee arrangement. Attractive to high-volume GSLP lenders who have made a substantial commitment to the establishment of effective student loan servicing systems.

7. Loan Consolidation Program (OPTIONS) --- Enables borrowers with high student loan indebtedness to refinance an outstanding student loan by obtaining a new longer-term guaranteed student loan from Sallie Mae.

GSLB/AS/4-9-82

Sallie Mae Options (Consolidated) Loans

Volume New Loans

FY 1982	#	$
1st QTR	158	1,834,002.79
2nd QTR	474	5,757,383.27
	632	$ 7,591,386.06

- Options' Interest Rate 7%
- Average Consolidated loan $ 12,011.69
- Average Option's loan period 13 years

Source of Loans Consolidated under OPTIONS:

FY 1982	GSL	NDSL
1st QTR	$ 1,627,693.54	$ 206,309.25
2nd QTR	5,274,037.02	483,346.25
	6,901,730.56	$ 689,655.50
% of $	91%	9%

Sallie Mae Financing Highlights

Since 1974, Sallie Mae has met all of its debt needs thru Federal Financing Bank (FFB) borrowings. However, in March 1981, Sallie Mae agreed to discontinue further FFB borrowings, either at the time that outstanding FFB debt reached $5 billion or by September 30, 1982. This decision was consistent with the Administration's desire to reduce federal credit activities. The final take down of FFB funds occurred in January 1982. A summary of Sallie Mae's $5 billion debt to FFB by maturity year is as follows:

1986-1995; $30 million annually	$ 300 million
1995	2.650 billion
1996	1.650 billion
1997	400 million
	$5.000 billion

In May 1981, Sallie Mae began offering discount notes, with maturities of up to one year, through selected securities dealers. During 1981, sales of discount notes totalled $4.5 billion. At year-end (Dec. 31, 1981), discount notes outstanding totalled $419 million.

In February 1982, Sallie Mae issued its first 3-year floating rate note of $250 million. This floating rate note proved immediately attractive to investors seeking relief from interest rate volatility because the interest rate is reset weekly based upon auction yields on 91-day U.S. Treasury bills.

During 1982, Sallie Mae expects to sell approximately $1 billion in floating rate notes to fund new student loan assets (loan purchases and warehousing advances) and will continue selling discount notes for cash flow purposes.

Summary of New Loans Purchased by Sallie Mae

Under its Loan Purchase Program

M=Million; B=Billion
Year = Calender year

	1974	1975	1976	1977	1978	1979	1980	1981	thru 12/31/81
New Loans Purchased	$4.2 M	$67.2 M	$131.3 M	$92.0 M	$209.9 M	$348.8 M	$594.5 M	$1.042 B	$2.490 B
Outstanding Year End	$4.2 M	$70.9 M	$197.1 M	$271.4 M	$438.1 M	$732.2 M	$1.217 B	$2.094 B	

Summary of Warehousing Advances Made by Sallie Mae

Under its Warehousing Advance Program

	1973	1974	1975	1976	1977	1978	1979	1980	1981	thru 12/31/81
Warehousing Advances During Year	$75.9 M	$155.4 M	$169.2 M	$89.1 M	$158.2 M	$231.0 M	$352.0 M	$811.2 M	$1.410 B	$3.452 B
Outstanding at Year End	$75.9 M	$191.6 M	$235.8 M	$214.0 M	$241.5 M	$414.0 M	$707.6 M	$1.422 B	$2.755 B	

At December 31, 1981, Sallie Mae's investment in student loans, consisting of warehousing advances outstanding and insured loans purchased, was equal to approximately 25% of all GSLP loans outstanding.

STUDENT LOAN MARKETING ASSOCIATION
COMMITMENTS SUMMARY
DECEMBER 31, 1981

Prepared for Department of Education

	Commitments To Purchase	Lines of Credit	Total
Commitments Approved and Executed	$1,159,450,000	$406,550,000	$1,566,000,000
Takedowns/Exercises	(252,500,307)	(384,011,000)	(636,511,307)
Commitments Outstanding	$ 906,949,693	$ 22,539,000	$ 929,488,693

Forecasted Commitment Activity Date	Commitments To Purchase	Lines of Credit	Total
01/01 - 01/31/82	$ 80,000,000	$ 20,000,000	$ 100,000,000
02/01 - 02/28/82	56,000,000	-0-	56,000,000
03/01 - 03/31/82	30,000,000	-0-	30,000,000
Total	$ 166,000,000	$ 20,000,000	$ 186,000,000

Claims Paid to Sallie Mae

FY	FISL	GA	TOTAL
80	$24.2 M	$8.4 M	$32.6 M
79	$21.5 M	$3.1 M	$24.6 M
78	No Call Report		
77	$1.1 M	$.9 M	$2.0 M

Source: Call Report Data

STUDENT LOAN MARKETING ASSOCIATION
MONTHLY SUMMARY OF NEW STUDENT LOANS PURCHASED
WAREHOUSING ADVANCES AND COMMITMENTS
As of DECEMBER 1981

Prepared for the Department of Education

	Loan Purchase Program		Warehousing Advance Program		Total	
	Transactions	Amount	Transactions	Amount	Transactions	Amount
Commercial Banks	72	$ 79,068,288	---	$ -0-	72	$ 79,068,288
Savings and Loans	26	73,107,090	5	36,890,000	31	109,997,090
Credit Unions	8	2,939,969	2	500,000	10	2,939,969
Educational Institutions	---	-0-	---	-0-	---	-0-
State Agencies/ State Direct Lenders	2	13,842,581	---	-0-	2	13,842,581
Total	108	$168,057,888	7	$36,990,000	115	$205,047,888

PORTFOLIO BALANCE BY INSTITUTION TYPE
As of December 31, 1981

	Loan Purchase Program	Warehousing Advance Program	Commitments To Purchase	Lines of Credit	
				Unused Portion	Gross Amount If Repaid
Other Institutions, principally financial	$1,800,660,850	$2,703,405,251	$202,949,693	$22,539,000	$374,050,000
State Agencies and State Direct Lenders	160,736,058	625,000	709,000,000	-0-	-0-
Educational Institutions	128,905,780	50,888,726	-0-	-0-	32,500,000
Total	$2,090,302,688	$2,754,918,977	$906,949,693	$22,539,000	$406,550,000

STUDENT LOAN MARKETING ASSOCIATION

OUTSTANDING DEBT SUMMARY AS OF 01/07/82

SERIES		ISSUE DATE	MATURITY DATE	AMT ISSUED (000 OMITTED)	PROCEEDS	FIRST COUPON DATE	NEXT COUPON DATE	COUPON INTERVAL IN MONTHS	DAYS TO MATURITY	COUPON EQUIVALENT YIELD	EFFECTIVE ANNUAL RATE
FFB	277	11/18/80	11/14/95	$2,000,000	$2,000,000,000	11/25/80	01/12/82	.23	5059	12.304%	N/A
FFB	285	12/30/80	12/26/95	$ 650,000	$ 650,000,000	01/06/81	01/12/82	.23	5101	12.304%	N/A
FFB	289	01/15/81	01/09/96	$ 350,000	$ 350,000,000	01/21/81	01/12/82	.23	5115	12.304%	N/A
FFB	301	03/31/81	03/25/96	$ 100,000	$ 100,000,000	09/29/81	03/29/82	6.00	5195	VARIABLE	N/A
FFB	307	04/07/81	04/05/96	$ 200,000	$ 200,000,000	10/05/81	04/05/82	6.00	5202	VARIABLE	N/A
FFB	308	04/15/81	04/10/96	$ 100,000	$ 100,000,000	10/10/81	04/10/82	6.00	5216	VARIABLE	N/A
FFB	314	07/01/81	07/01/96	$ 300,000	$ 300,000,000	01/04/82	07/01/82	6.00	5289	VARIABLE	N/A
FFB	315	07/16/81	07/16/96	$ 100,000	$ 100,000,000	01/18/82	01/18/82	6.00	5304	VARIABLE	N/A
FFB	316	08/05/81	08/05/96	$ 100,000	$ 100,000,000	02/05/82	02/05/82	6.00	5324	VARIABLE	N/A
FFB	317	08/14/81	08/14/96	$ 100,000	$ 100,000,000	02/14/82	02/16/82	6.00	5333	VARIABLE	N/A
FFB	318	08/27/81	08/27/96	$ 100,000	$ 100,000,000	03/01/82	03/01/82	6.00	5346	VARIABLE	N/A
FFB	319	09/16/81	09/16/96	$ 100,000	$ 100,000,000	03/16/82	03/16/82	6.00	5366	VARIABLE	N/A
FFB	320	09/23/81	09/23/96	$ 100,000	$ 100,000,000	03/23/82	03/23/82	6.00	5373	VARIABLE	N/A
FFB	321	10/01/81	SERIAL[1]	$ 300,000	$ 300,000,000	04/01/82	04/01/82	6.00	3455	VARIABLE	N/A
FFB	322	01/07/82	01/07/97	$ 400,000	$ 400,000,000	07/07/82	07/07/82	6.00	5479	VARIABLE	N/A

$ WTD AVERAGE COST COUPON EQUIVALENT YIELD: 12.304%
$ WTD AVERAGE MATURITY IN DAYS: 5065
TOTAL AMOUNT OUTSTANDING: $ 5,000,000,000
CUMULATIVE AMOUNT ISSUED: $149,440,000,000

1 First Maturity 10/1/86 for $30 million.

Contractors Sallie Mae uses to service its Student Loan portfolio

1. Academic Financial Services Corp., a subsidiary of First Chicago Corp.
2. Student Loan Servicing Center of the First National Bank of Minneapolis.
3. Wachovia Services, Inc., a subsidiary of Wachovia Corp.
4. Bank of America
5. Pennsylvania Higher Education Assistance Authority
6. Unipac Services Corp. (OPTIONS)
7. Student Loan Repayment Center, Fairfax, Va.
8. Student Loan Repayment Center, Sallie Mae (in-house)
9. United Student Aid Funds, Inc. (USAF)
10. Computer Services Inc. (CSI)
11. Massachusetts Higher Education Assistance Corp.
12. Wisconsin Higher Educational Aids Board
13. Connecticut Student Loan Foundation

Senator RANDOLPH. Off the record.

[Discussion off the record.]

Senator STAFFORD. Thank you, Senator.

I would note that our first panel is at the witness table, and looking at both of the panels, the Chair notes that we have both a Fox and a Hawk here today, which means it is lucky there are no chickens in the room.

The first witness will be Mr. Edward A. Fox, president, Student Loan Marketing Association, to be followed by Mr. Edward A. McCabe, chairman of the board of the same association, both of Washington.

Mr. Fox?

Mr. Fox. Mr. McCabe will precede me. Thank you, Senator.

Senator STAFFORD. Mr. McCabe will go first, all right.

STATEMENT OF EDWARD A. McCABE, CHAIRMAN OF THE BOARD, STUDENT LOAN MARKETING ASSOCIATION, WASHINGTON, D.C., AND EDWARD A. FOX, PRESIDENT AND CHIEF EXECUTIVE OFFICER, STUDENT LOAN MARKETING ASSOCIATION, WASHINGTON, D.C.

Mr. McCABE. Thank you, Mr. Chairman. I appreciate your opening comments, and I particularly appreciate those of Senator Randolph. This is a large, a complex and growing financial institution. I am delighted to hear the extent of the research and the work that has been done and is underway at the staff level here to develop a better understanding of these operations.

It is important that you know about us, and we want you to know about us, and to the extent these hearings can help in that regard, we are doubly delighted.

Senator STAFFORD. Would you be willing to pull the mike up a little closer, Mr. McCabe, please?

Mr. McCABE. I was appointed chairman of this board by the President in November 1981, and this was a particularly pleasing appointment to me because I had been the organizing chairman of this company back in 1972 and served as chairman of the board of directors for the first 6 years until late 1978.

As has been said, Sallie Mae is a private, for-profit corporation, so established by Congress 10 years ago. It provides a secondary market and a warehousing facility for lenders to make guaranteed loans to students. Its mission generally is to support student credit.

I think it is important to keep in mind that it is owned by its shareholders. It pays dividends to those shareholders and it pays substantial Federal taxes. The corporation that I left, Mr. Chairman, in 1978 at the end of my term as chairman is very different from the one I returned to in 1981.

In 1978, Sallie Mae's total assets were less than $1 billion, and now they total $6.5 billion. The Warehousing Advance Program—the one by which money is loaned to institutions to make student loans—provided $182.5 million in calendar year 1978, and in 1981 it was up to $1.4 billion.

The Loan Sale Program—the one by which Sallie Mae buys existing loans from lenders—had a portfolio in 1978 slightly over $500 million, and in 1981 it had grown to $2 billion. In 1978, Sallie Mae

dealt with over 200 lenders, and now deals with over 1,300 lenders nationwide.

We believe the corporation has kept pace with the growth in the guaranteed student loan program. In addition to the growth in assets I just mentioned, it has grown in complexity as well, implementing numerous new programs that provide liquidity to lenders and support the guaranteed student loan program. The community lender program, the seller servicing program, the Government securities advance program, and the loan consolidation program are a few examples of these.

In addition, and quite importantly, in this past year Sallie Mae has raised all its operating funds in the public capital markets, thereby providing funds to support the Guaranteed student loan program from private, nongovernmental sources. I am happy to report that Sallie Mae's debt offerings have been well received in the marketplace. I believe Sallie Mae has shown through its growth and diversity the viability of support for a social program by a private corporation.

The Board of Directors of Sallie Mae was designed by Congress to direct policy for the corporation. The Board is made up of all outsiders; there are no employee directors. The day-to-day operations of the company are left to management under the direction of Mr. Edward A. Fox, the President of Sallie Mae, who is here with me.

However, the Board takes very seriously the mandate of the Higher Education Act that Sallie Mae is designed specifically to support student credit. All policy decisions on the direction of Sallie Mae's program are made by the Board, which weighs carefully the needs of the guaranteed student loan program in creating and administering these programs.

Sallie Mae's 21-member Board represents the diversity of the guaranteed student loan program itself. Seven public directors appointed by the President come from backgrounds of banking, insurance, the legal profession, business and education.

The voting stock of Sallie Mae may, by statute, be owned only by financial and educational institutions that participate in the guaranteed student loan program. Seven directors are elected by educational institutions that are stockholders. These educational directors come from private and public colleges and from state agencies. The seven directors elected by the financial institutions that are stockholders come from all types of financial institutions, large and small, and thrift institutions as well.

Sallie Mae is charged with the responsibility of responding to the needs of the guaranteed student loan program. To this end, the Board has prescribed a range of programs to respond to the varying needs of different types of lenders, and to respond quickly to changes in the guaranteed student loan program.

Mr. Chairman, with that very quick overview, I will ask our President and Chief Executive Officer, Mr. Edward A. Fox, to my right here, to discuss current corporate programs, and then he and I will try to answer any questions you may have.

Senator STAFFORD. Thank you very much, Mr. McCabe.

Mr. Fox, we would be glad to hear from you.

Mr. Fox. Thank you, Senator. It is a particular pleasure to be introduced by Ed McCabe because he hired me as the first employee

of Sallie Mae 9 years ago when this was just an idea, a piece of legislation that had been approved by the Congress. It was a corporation that had a great deal of potential but absolutely no assets, no income, and not even a place to sit.

In the last 9 years, we have built this corporation to $6.5 billion. To give you an idea of just how it might compare with other institutions, that would make Sallie Mae the equivalent of about the 35th or 40th largest bank in the United States—$6.5 billion worth of assets, all of which assets are totally employed in the pursuit and support of the guaranteed student loan program.

These programs include loan programs, purchase programs, and commitment programs, putting up a very significant amount of money in support of the underlying GSLP and more modest-sized loan programs established by the Congress.

The support that we have given in all of these programs is equal to approximately 30 percent of all the dollars totally committed today to the GSLP. If you were to take the programs that support housing, you would find that our one organization provides proportionately more credit than all of the combined secondary markets in support of housing on a nationwide basis. So, we feel that we have had a very positive and very supporting impact in both the growth and support and management of the guaranteed student loan program.

There are one or two other comments I would like to make before returning it to you, sir, for questions. The thrust and trend of the corporation over the last few years, by congressional attitude and by necessity, has been to make this a more conservative entity because you have asked us to become a totally private corporation, to finance ourselves in the private capital markets, to break whatever connections that we do have with the Federal Financing Bank and with the Federal Government, and to learn to be a self-sufficient entity and a tax-paying entity that builds itself on the basis of its balance sheet, its earning statement, and through its ability to raise capital in support of these programs in the private capital markets without using any tax resources as appropriated by the Congress.

We are doing that and we are doing so at a higher cost, absorbing much of it. We are trying very hard to continue to provide service as a private corporation, dependent on our ability as a successful business to attract capital.

Under our statute we are subject to audit by the Treasury Department since inception, we have been providing the Department with appropriate information for their review.

In terms of our earnings, we make less than one-half of 1 cent per dollar on the assets that we hold. And we find that if we were to compare ourselves with the 100 largest banks in the banking system, while we would be approximately the 35th largest bank in the country, our earnings would be at the very bottom of the list of those institutions.

We would find that our Federal tax rate would be the highest of any of the 100 largest banks in the United States. We would find that our return on assets would be one of the lowest. We would find that our capital, proportionate to our size, would be just about the lowest.

We feel that we have to survive on the strength of that balance sheet in order to attract capital and provide service in support of the guaranteed student loan program. And with the direction of the board of directors, which is representative of the entire student loan program, we are moving to try to manage consistent with the needs of all the constituencies in higher education in support of the guaranteed student loan program.

Senator, that ends my statement. We have given you a great deal of material, and hopefully we do not have to repeat all of that, for the record.

Senator STAFFORD. Thank you very much, Mr. Fox. We will place your entire statement in the record as if read.

[The prepared statement of Mr. Fox and joint responses of Mr. McCabe and Mr. Fox to questions asked by Senators Hatch, Randolph, and Stafford, follow:]

TESTIMONY OF

EDWARD A. FOX

STUDENT LOAN MARKETING ASSOCIATION

The Student Loan Marketing Association (Sallie Mae) is a private, for-profit corporation chartered by Congress to provide a national secondary market for insured student loans made by private or state lenders under the federally-sponsored Guaranteed Student Loan Program (GSLP) and Health Education Assistance Loan Program (HEAL).

By law, Sallie Mae is structured along traditional corporate lines, with total responsibilities in the hands of a board of directors and a management team. The President of the United States appoints one-third of the 21-member board and designates the chairman from among the full membership. By statute, financial and educational institutions are permitted to own shares of voting stock of the corporation and each group elects one-third of the board of directors.

Sallie Mae provides a broad spectrum of private and state lenders--commercial banks, thrift institutions, credit unions, state agencies and other lenders--with a source of liquidity. It offers such lenders the opportunity to sell student loans at cash value or to borrow additional funds to support their student lending activity by pledging existing

loans as collateral, thus serving as a secondary market for student loans.

In 1980, amendments to the basic enabling legislation, the Higher Education Act of 1965, enlarged Sallie Mae's statutory program and financing authority. Specific provisions authorize the corporation to consolidate or refinance student loans, to lend funds directly to state agencies where there is a certified shortage of loan capital, and to serve as a direct lender in states where there is a severe student loan shortage. Various amendments were included in the Omnibus Budget Reconciliation Act of 1981 broadening Sallie Mae's authorities as a prospective "safety net" in support of student credit. These include the right to purchase student loan revenue bonds and, with the approval of the Secretary of Education, to be an insurer under certain specific and limited conditions. A detailed discussion of these amendments can be found in the Appendix to this testimony.

In nine years of operation, Sallie Mae has provided more than $7.5 billion of support to lenders under the GSLP. As of July 31, 1982, its investment of $5.6 billion in the GSLP was equal to approximately 30 percent of all insured student loans outstanding. This compares favorably with the experience of all government-sponsored housing secondary market activities which

have ranged between 15 and 24 percent during the past five years.

Sallie Mae has worked with 1,300 lenders providing direct or indirect financial assistance to millions of students in 51 states and territories. They include commercial banks, savings banks, thrift institutions, credit unions, educational institutions, state agencies and state secondary markets. It has assisted in financing statewide programs in 17 states and the District of Columbia.

Sallie Mae obtains funds for its operations primarily from the sale of its debt obligations. In recent years it has financed its activities principally through the issuance to the Federal Financing Bank (FFB) of debt obligations guaranteed by the Secretary of Education. As announced by Secretary Regan on May 7, 1981, Sallie Mae has begun borrowing in the public markets without the guarantee of the federal government.

The corporation is expected to meet the same profit and loss standards, including a return on stockholders' equity, as a business without a government link. It pays full federal income taxes and has received no federal appropriations during its entire history. Sallie Mae has severed its ties with the federal government in connection with its funding activities. Its objective is to achieve its primary social purpose of expanding credit in support of access to postsecondary education

by operating as a business organization subject to the disciplines and opportunities of the marketplace. As such, Sallie Mae considers itself to be a prototype for transforming a quasi-government organization into a private sector corporation that functions efficiently and profitably while fulfilling its original public service purpose.

During 1981, Sallie Mae provided $2.5 billion of secondary market support for the GSLP, a dramatic increase over the $1.4 billion in 1980. During the year the corporation's holdings of student loan related assets increased by 86 percent over 1980. From December 31, 1977, through June 30, 1982, the corporation has grown approximately 12 fold from $500 million to over $6.1 billion. Sallie Mae purchased $1 billion of guaranteed student loans in 1981, representing over 1,400 transactions from institutions in almost every state in the union. During 1982, Sallie Mae expects to increase moderately its dollar volume of loan purchases against the 1981 performance. Warehousing advances (loans) totalled $1.4 billion in 1981, a dramatic increase over the $811 million made available in 1980. This growth was caused by lessened liquidity in the banking system and high interest rates which, in combination, create a cyclical demand for loans from Sallie Mae. Lowered interest rates and the previous utilization of available collateral by lending institutions suggest that demand for this service from

Sallie Mae will diminish substantially in 1982. Over $500 million of lending in the Warehousing Advance Program in 1981 was against collateral other than student loans. This authority, first contained in the 1980 amendments to the Higher Education Act, permitted Sallie Mae to finance institutions that had not previously participated in the GSLP and permitted others that were lenders-of-last-resort to borrow from Sallie Mae to assure access to eligible students. Additionally, Sallie Mae provided $800 million of commitments to 58 institutions in 1981 to either purchase loans or lend at a future point in time. As of June 30, 1982, such commitments which are contingent liabilities of the corporation, totalled nearly $900 million.

Sallie Mae was given the responsibility in the 1980 amendments to put in place a Loan Consolidation Program for certain qualifying students relative to the National Direct Student Loan Program (NDSL) and the GSLP. Approval from the Department of Education was not forthcoming until late in 1981, resulting in a pilot program first being offered during the fourth quarter. Because of the lack of a usable data base to identify prospective candidates for loan consolidation, and due to an extremely time consuming and costly process of origination, results of our pilot program are just beginning to become available. A preliminary response from high indebtedness graduates suggests a relatively modest interest in the loan consolidation opportunity. However, Sallie Mae is committed to providing loan

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